
SEWERAGE AND WATER BOARD OF NEW ORLEANS

FINANCIAL STATEMENTS AND SCHEDULES

DECEMBER 31, 2006

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

11/14/07



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SEWERAGE AND WATER BOARD OF NEW ORLEANS

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INDEPENDENT AUDITORS' REPORT

Members of the Board
Sewerage and Water Board of New Orleans:

We have audited the basic financial statements of the Sewerage and Water Board of New Orleans as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Sewerage and Water Board of New Orleans as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Schedules of Funding Progress and Employer Contributions as listed on the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report, dated October 31, 2007, on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were made for the purpose of forming an opinion on the 2006 and 2005 basic financial statements of the Board taken as a whole. The accompanying information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Passthwaite & Mitterville

New Orleans, Louisiana
October 31, 2007

SEWERAGE & WATER BOARD OF NEW ORLEANS

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2006

This section of the Sewerage & Water Board of New Orleans' (the Board) annual financial report presents a discussion and analysis of the Board's financial performance during the fiscal year that ended December 31, 2006. Please read it in conjunction with the Board's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Recovery from Hurricane Katrina and the resulting flooding was the most significant event to occur during 2006. Repairs to water, sewerage, and drainage systems, building repairs, and vehicle and equipment repairs continued throughout 2006.

Enterprise Fund

The major highlights in the Board's enterprise fund were as follows:

2006

- The Board's additions to its major systems approximated \$105.9 million.
- The SELA project which is a major upgrade to the drainage system by the Corps of Engineers was postponed during 2006 with no additions to work in progress recorded during the year.
- The Board refunded during July 2006 \$24 million of the \$137 million in short term bond anticipation notes originally issued in July 2005.
- Federal Emergency Management Agency (FEMA) Disaster Public Assistance grants expended totaled \$74.2 million, of which \$39.2 million were capital contributions and \$35.0 million were for operating, maintenance and debris removal expenses.

2005

- The Board's additions to its major systems approximated \$124.8 million. Property damages from Hurricane Katrina resulted in property losses of \$49.2 million.
- The SELA project which is a major upgrade to the drainage system by the Corps of Engineers continued during 2005; \$1.9 million of additions to work in progress were recorded during the year.
- The Board refunded during July 2005 the \$137 million in short term bond anticipation notes originally issued in July 2004.
- Federal Emergency Management Agency (FEMA) Disaster Public Assistance grants expended totaled \$40.9 million, of which \$31.6 million were capital contributions and \$9.3 million were for operating, maintenance and debris removal expenses.

Pension Trust Fund

2006

The major highlight in the Board's pension trust fund was the continued improved financial performance in the convertible securities market, continued interest rate increases, and the resulting appreciation of \$24.4 million in the market value of the investments held by the plan during 2006. The plan net assets available of benefits increased to \$225.9 million.

2005

The major highlight in the Board's pension trust fund was the continued improved financial performance in the convertible securities market, continued interest rate increases, and the resulting appreciation of \$3.6 million in the market value of the investments held by the plan during 2005. The plan net assets available of benefits increased to \$202 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of five parts: management's discussion and analysis (this section), the financial statements, the notes to the financial statements, required supplementary information, and other supplementary information.

Government-wide Financial Statements – Enterprise Fund

The Board's principal activities of providing water, sewerage, and drainages services are accounted for in a single proprietary fund – the enterprise fund. Enterprise funds are used to report business activities. Since the enterprise fund is the Board's single activity, its financial statements are presented as the Board's government-wide financial statements.

The financial statements provide both long-term and short-term information about the Board's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information and other supplementary information that further explain and support the information in the financial statements.

The Board's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the Board are included in the Statements of Net Assets.

The Statement of Net Assets reports the Board's net assets. Net assets-the difference between the Board's assets and liabilities-are one way to measure the Board's financial health or position.

Fund Financial Statements – Pension Trust Fund

The Board's fund financial statements consist of its pension trust fund. As a fiduciary fund, the pension trust fund is held for the benefit of employees and retirees of the Board. The pension trust fund is not reflected in the government wide financials because the resources are not available to the Board for its activities. The accounting for the pension trust fund is much like that used by the enterprise fund.

FINANCIAL ANALYSIS OF THE BOARD'S

ENTERPRISE FUND

2006 Net Assets

The Board's total assets at December 31, 2006 were approximately \$1.7 billion, a 0.8% decrease over December 31, 2005 (see Table A-1).

Table A-1				
Sewerage & Water Board of New Orleans				
Net Assets				
	2006	2005	Increase (Decrease)	Increase (Decrease)
Current assets	\$ 97,310,544	\$ 73,067,066	\$ 24,243,478	33.2%
Restricted assets	189,820,167	298,455,080	(108,634,913)	-36.4%
Property, plant and equipment - net	1,389,245,880	1,317,298,829	71,947,051	5.5%
Other assets	5,168,276	5,625,101	(456,825)	-8.1%
Total assets	\$ 1,681,544,867	\$ 1,694,446,076	\$ (12,901,209)	-0.8%
Current liabilities	\$ 104,679,864	\$ 273,184,938	\$ (168,505,074)	-61.7%
Long-term liabilities	363,092,090	265,600,587	97,491,503	36.7%
Total liabilities	467,771,954	538,785,525	(71,013,571)	-13.2%
Net assets:				
Invested in capital assets, net of related debt	1,183,354,778	1,092,139,700	91,215,078	8.4%
Restricted	30,418,135	63,520,851	(33,102,716)	-52.1%
Total net assets	1,213,772,913	1,155,660,551	58,112,362	5.0%
Total liabilities and net assets	\$ 1,681,544,867	\$ 1,694,446,076	\$ (12,901,209)	-0.8%

The decrease in total assets of \$12.9 million resulted primarily from an increase in property, plant and equipment of \$71.9 million in 2006 due to \$14.6 million in construction funds expended and \$42.6 million of capital contributions less the annual provision for depreciation of \$36.5 million, payments made on bond anticipation notes of \$113.0 million offset by new loans of \$86.5 million borrowed through the Special Community Disaster Loan program and the Debt Service Assistance Fund program. Current liabilities decreased by \$168.5 million and long-term liabilities increased by \$97.5 million in 2006 as compared to 2005 due primarily to debt service payments made on revenue bonds offset by additional debt from the Special Community Disaster loan and the Debt Service Assistance Fund loan.

2005 Net Assets

The Board's total assets at December 31, 2005 reached approximately \$1.7 billion, a 1.1% increase over December 31, 2004 (see Table A-2).

Table A-2				
Sewerage & Water Board of New Orleans				
Net Assets				
	2005	2004	Increase (Decrease)	Increase (Decrease)
Current assets	\$ 73,067,066	\$ 33,106,264	\$ 39,960,802	120.7%
Restricted assets	298,455,080	357,112,767	(58,657,687)	-16.4%
Property, plant and equipment - net	1,317,298,829	1,279,442,913	37,855,916	3.0%
Other assets	5,625,101	6,944,092	(1,318,991)	-19.0%
Total assets	\$ 1,694,446,076	\$ 1,676,606,036	\$ 17,840,040	1.1%
Current liabilities	\$ 273,184,938	\$ 216,972,936	\$ 56,212,002	25.9%
Long-term liabilities	265,600,587	279,560,334	(13,959,747)	-5.0%
Total liabilities	538,785,525	496,533,270	42,252,255	8.5%
Net assets:				
Invested in capital assets, net of related debt	1,092,139,700	1,085,354,440	6,785,260	0.6%
Restricted	63,520,851	94,718,326	(31,197,475)	-32.9%
Total net assets	1,155,660,551	1,180,072,766	(24,412,215)	-2.1%
Total liabilities and net assets	\$ 1,694,446,076	\$ 1,676,606,036	\$ 17,840,040	1.1%

The increase in total assets of \$17.8 million resulted primarily from an increase in property, plant and equipment of \$37.9 million in 2005 due to \$42.9 million in construction funds expended and \$35.4 million of capital contributions less property losses resulting from Hurricane Katrina of \$49.2 million and the annual provision for depreciation of \$39.2 million. Current liabilities increased by \$56.2 million and long-term liabilities decreased by \$14.0 million in 2005 as compared to 2004 due primarily to increases in accounts payable for FEMA grant-related expenditures and normal payments of bonds payable existing at the beginning of the year.

2006 Changes in Net Assets

The change in net assets for the year ended December 31, 2006 was approximately \$82.5 million or 338.0% more than the change in net assets for the year ended December 31, 2005. The Board's total operating revenues increased by 0.9% to approximately \$100.3 million, and total operating expenses decreased 1.5% to approximately \$159.9 million. The changes in net assets are detailed in Table A-3; operating expenses are detailed in Table A-4.

Table A-3				
Sewerage & Water Board of New Orleans				
Revenues, Expenses and Change in Net Assets				
	2006	2005	Increase (Decrease)	Increase (Decrease)
Operating revenues:				
Charges for services	\$ 97,047,638	\$ 96,232,489	\$ 815,149	0.8%
Other	3,290,683	3,171,703	118,980	3.8%
Total operating revenues	100,338,321	99,404,192	934,129	0.9%
Operating expenses (Table A-3)	159,860,151	162,369,426	(2,509,275)	-1.5%
Operating loss	(59,521,830)	(62,965,234)	3,443,404	5.5%
Non-operating revenues:				
Property taxes	33,175,028	45,851,877	(12,676,849)	-27.6%
Other taxes	634,321	631,818	2,503	0.4%
Operating and maintenance grants	35,013,143	9,338,528	25,674,615	274.9%
Hurricane gain (loss)	2,303,397	(55,909,262)	58,212,659	104.1%
Investment income (expense)	3,862,568	3,288,497	574,071	17.5%
Total non-operating revenues	74,988,457	3,201,458	71,786,999	2242.3%
Income before capital contributions	15,466,627	(59,763,776)	75,230,403	125.9%
Capital contributions	42,645,735	35,351,561	7,294,174	20.6%
Change in net assets	58,112,362	(24,412,215)	82,524,577	338.0%
Net assets, beginning of year	1,155,660,551	1,180,072,766	(24,412,215)	-2.1%
Net assets, end of year	\$ 1,213,772,913	\$ 1,155,660,551	\$ 58,112,362	5.0%

Operating revenues increased primarily as a result of an increase in sewerage rates offset by a decline in volume due to decreases in the customer base following Hurricane Katrina. Property taxes decreased by \$12.7 million in 2006 due to a decrease in assessed value.

Capital revenue from federal grants and construction of Board property by other agencies increased by 20.6% to \$42.6 million. Operating and maintenance grants increased by 274.9% to \$35.0 million. Capital contributions and operating and maintenance grants related to FEMA Disaster Public Assistance grants. Hurricane gain (loss) consisted of insurance recoveries of \$2.3 million in 2006 and \$55.9 million of property and inventory losses in 2005.

Table A-4				
Sewerage & Water Board of New Orleans				
Operating Expenses				
	2006	2005	Increase (Decrease)	Increase (Decrease)
Power and pumping	\$ 11,576,640	\$ 11,818,104	\$ (241,464)	-2.0%
Treatment	13,518,870	13,736,515	(217,645)	-1.6%
Transmission and distribution	13,845,793	18,432,531	(4,586,738)	-24.9%
Customer accounts	1,910,612	2,413,631	(503,019)	-20.8%
Customer service	2,265,250	2,645,604	(380,354)	-14.4%
Administration and general	13,714,644	12,130,773	1,583,871	13.1%
Payroll related	17,914,694	19,780,248	(1,865,554)	-9.4%
Maintenance of general plant	23,344,667	27,991,450	(4,646,783)	-16.6%
Depreciation	36,546,373	39,187,670	(2,641,297)	-6.7%
Amortization	208,045	360,445	(152,400)	-42.3%
Provision for doubtful accounts	22,355,906	6,582,465	15,773,441	239.6%
Provision for claims	2,658,657	7,289,990	(4,631,333)	-63.5%
Total operating expenses	\$ 159,860,151	\$ 162,369,426	\$ (2,509,275)	-1.5%

The decrease in transmission and distribution expenses in 2006 of \$4.6 million or 24.9% is primarily due to a reduction in the volume of water service demands on the east bank of New Orleans and a decrease in salaries and payroll related services due to a reduction in staff, all caused by Hurricane Katrina. The decrease in maintenance of general plant in 2006 of \$4.6 million or 16.6% resulted primarily from decreases over 2005 in salaries and payroll related expenses, professional services, consulting, and equipment repairs to restore systems following Hurricane Katrina. Depreciation expense decreased by \$2.6 million or 6.7% due to less depreciation expense in 2006 as a result of losses recognized as a result of Hurricane Katrina in 2005. Provisions for doubtful accounts increased by \$15.8 million or 239.6% in 2006 as compared to 2005 as a result of an increase in closed accounts which are fully reserved and additional reserves for amounts not expected to be collected following Hurricane Katrina. Provisions for claims decreased by \$4.6 million or 63.5% in 2006 as compared to 2005. Claims expense varies due to the number and severity of the claims during any period. The decrease is due primarily to several large judgments rendered in 2005.

2005 Changes in Net Assets

The change in net assets for the year ended December 31, 2005 was approximately \$24.4 million or 42.6% less than the change in net assets for the year ended December 31, 2004. The Board's total operating revenues decreased by 23.6% to approximately \$99.4 million, and total operating expenses increased 4.9% to approximately \$162.4 million. The changes in net assets are detailed in Table A-5; operating expenses are detailed in Table A-6.

	2005	2004	Increase (Decrease)	Increase (Decrease)
Operating revenues:				
Charges for services	\$ 96,232,489	\$ 126,719,406	\$ (30,486,917)	-24.1%
Other	3,171,703	3,343,867	(172,164)	-5.1%
Total operating revenues	99,404,192	130,063,273	(30,659,081)	-23.6%
Operating expenses (Table A-3)	162,369,426	154,833,957	7,535,469	4.9%
Operating loss	(62,965,234)	(24,770,684)	(38,194,550)	154.2%
Non-operating revenues:				
Property taxes	45,851,877	43,064,947	2,786,930	6.5%
Other taxes	631,818	744,322	(112,504)	-15.1%
Operating and maintenance grants	9,338,528	-	9,338,528	100.0%
Hurricane loss	(55,909,262)	-	(55,909,262)	-100.0%
Investment income (expense)	3,288,497	1,352,425	1,936,072	143.2%
Total non-operating revenues	3,201,458	45,161,694	(41,960,236)	-92.9%
Income before capital contributions	(59,763,776)	20,391,010	(80,154,786)	-393.1%
Capital contributions	35,351,561	22,124,960	13,226,601	59.8%
Change in net assets	(24,412,215)	42,515,970	(66,928,185)	-157.4%
Net assets, beginning of year	1,180,072,766	1,137,556,796	42,515,970	3.7%
Net assets, end of year	\$ 1,155,660,551	\$ 1,180,072,766	\$ (24,412,215)	-2.1%

Operating revenues decreased primarily as a result of a decline in volume due to decreases in the customer base following Hurricane Katrina. Property taxes increased by \$2.8 million in 2005 due to an increase in assessed value.

Capital revenue from federal grants and construction of Board property by other agencies increased by 59.8% to \$35.4 million. Principal capital contributions related to FEMA Disaster Public Assistance grants and the U.S. Corps of Engineers' construction of major drainage system improvements.

Table A-6				
Sewerage & Water Board of New Orleans				
Operating Expenses				
	2005	2004	Increase (Decrease)	Increase (Decrease)
Power and pumping	\$ 11,818,104	\$ 22,334,434	\$ (10,516,330)	-47.1%
Treatment	13,736,515	17,131,922	(3,395,407)	-19.8%
Transmission and distribution	18,432,531	20,846,681	(2,414,150)	-11.6%
Customer accounts	2,413,631	2,625,751	(212,120)	-8.1%
Customer service	2,645,604	2,855,631	(210,027)	-7.4%
Administration and general	12,130,773	14,978,964	(2,848,191)	-19.0%
Payroll related	19,780,248	18,794,864	985,384	5.2%
Maintenance of general plant	27,991,450	10,764,556	17,226,894	160.0%
Depreciation	39,187,670	38,600,928	586,742	1.5%
Amortization	360,445	295,156	65,289	22.1%
Provision for doubtful accounts	6,582,465	2,718,176	3,864,289	142.2%
Provision for claims	7,289,990	2,886,894	4,403,096	152.5%
Total operating expenses	\$ 162,369,426	\$ 154,833,957	\$ 7,535,469	4.9%

The decrease of \$10.5 million or 47.1% in 2005 in power and pumping is primarily due to a decrease in operations as a result of Hurricane Katrina including a decrease in boiler operations for high pressure gas and one sewerage pumping station being down as compared to 2004. The decrease in treatment expenses in 2005 of \$3.4 million or 19.8% primarily due to the east bank wastewater treatment plant being damaged and inoperable due to Hurricane Katrina. The decrease in transmission and distribution expenses in 2005 of \$2.4 million or 11.6% is primarily due to a disruption of water service at varying levels on the east bank of New Orleans for varying periods of time and a decrease in salaries and payroll related services due to a reduction in staff, all caused by Hurricane Katrina. The decrease in administration and general expenses in 2005 of \$2.8 million or 19.0% resulted primarily from decreases in salaries and payroll related services due to a reduction in staff caused by Hurricane Katrina. The increase in maintenance of general plant in 2005 of \$17.2 million or 160% resulted primarily from increases in salaries and payroll related expenses, professional services, consulting, and equipment repairs to restore systems following Hurricane Katrina. Provisions for doubtful accounts increased by \$3.9 million or 142.2% in 2005 as compared to 2004 as a result of an increase in closed accounts which are fully reserved and additional reserves for amounts not expected to be collected following Hurricane Katrina. Provisions for claims increased by \$4.4 million or 152.5% in 2005 as compared to 2004. Claims expense varies due to the number and severity of the claims during any period. The increase is due primarily to several large judgments rendered.

PENSION TRUST FUND

2006 Plan Net Assets

The Board's total plan net assets of its pension trust fund at December 31, 2006 was approximately \$225.9 million, a 11.6% increase over December 31, 2005 (see table A-7). Total assets increased 11.1% to \$229.2 million.

Table A-7				
Sewerage & Water Board of New Orleans				
Plan Net Assets				
	2006	2005	Increase (Decrease)	Increase (Decrease)
Cash	\$ 1,104,112	\$ 207,806	\$ 896,306	431.3%
Investments	227,419,270	205,248,652	22,170,618	10.8%
Receivables	547,587	773,796	(226,209)	-29.2%
Other assets	113,203	-	113,203	100.0%
Total assets	229,184,172	206,230,254	22,953,918	11.1%
DROP participant payable	\$ 3,247,090	\$ 3,593,654	\$ (346,564)	-9.6%
Due to other fund	-	231,509	(231,509)	-100.0%
Total liabilities	3,247,090	3,825,163	(578,073)	-15.1%
Plan net assets	\$ 225,937,082	\$ 202,405,091	\$ 23,531,991	11.6%

Plan net assets increased by \$23.5 million in 2006 primarily due to realized and unrealized gains on investments recognized in 2006.

2005 Plan Net Assets

The Board's total plan net assets of its pension trust fund at December 31, 2005 was approximately \$202 million, a 2.1% increase over December 31, 2004 (see table A-8). Total assets increased 1.7% to \$206.2 million.

Table A-8				
Sewerage & Water Board of New Orleans				
Plan Net Assets				
	2005	2004	Increase (Decrease)	Increase (Decrease)
Cash	\$ 207,806	\$ 242,764	\$ (34,958)	-14.4%
Investments	205,248,652	201,549,735	3,698,917	1.8%
Other assets	773,796	1,062,674	(288,878)	-27.2%
Total assets	206,230,254	202,855,173	3,375,081	1.7%
DROP participant payable	\$ 3,593,654	\$ 4,571,050	\$ (977,396)	-21.4%
Due to other fund	231,509	-	231,509	100.0%
Total liabilities	3,825,163	4,571,050	(745,887)	-16.3%
Plan net assets	\$ 202,405,091	\$ 198,284,123	\$ 4,120,968	2.1%

Plan net assets increased by \$4.1 million in 2005 primarily due to realized and unrealized gains on investments recognized in 2005.

2006 Changes in Plan Net Assets

Table A-9				
Sewerage & Water Board of New Orleans				
Change in Plan Net Assets				
	2006	2005	Increase (Decrease)	Increase (Decrease)
Additions:				
Contributions	\$ 6,683,136	\$ 5,607,361	\$ 1,075,775	19.2%
Net income on investments	29,080,710	8,890,315	20,190,395	227.1%
Total additions	35,763,846	14,497,676	21,266,170	146.7%
Deductions:				
Benefits	(9,905,119)	(8,494,829)	(1,410,290)	16.6%
Employee refunds	(680,769)	(149,147)	(531,622)	356.4%
Employee DROP contributions	(1,645,967)	(1,732,732)	86,765	-5.0%
Total deductions	(12,231,855)	(10,376,708)	(1,855,147)	17.9%
Change in net assets	23,531,991	4,120,968	19,411,023	471.0%
Plan net assets, beginning of year	202,405,091	198,284,123	4,120,968	2.1%
Plan net assets, end of year	\$ 225,937,082	\$ 202,405,091	\$ 23,531,991	11.6%

Contributions to the pension plan increased in 2006 as compared to 2005 primarily due to increased transfers in from the City of New Orleans and buy back of service.

The increase in the change in plan net assets of \$19.4 million resulted primarily from an increase in unrealized gains on investments in 2006.

2005 Changes in Plan Net Assets

Table A-10				
Sewerage & Water Board of New Orleans				
Change in Plan Net Assets				
	2005	2004	Increase (Decrease)	Increase (Decrease)
Additions:				
Contributions	\$ 5,607,361	\$ 4,841,810	\$ 765,551	15.8%
Net income on investments	8,890,315	19,415,652	(10,525,337)	-54.2%
Total additions	14,497,676	24,257,462	(9,759,786)	-40.2%
Deductions:				
Benefits	(8,494,829)	(7,946,658)	(548,171)	6.9%
Employee refunds	(149,147)	(116,254)	(32,893)	28.3%
Employee DROP contributions	(1,732,732)	(2,027,170)	294,438	-14.5%
Total deductions	(10,376,708)	(10,090,082)	(286,626)	2.8%
Change in net assets	4,120,968	14,167,380	(10,046,412)	-70.9%
Plan net assets, beginning of year	198,284,123	184,116,743	14,167,380	7.7%
Plan net assets, end of year	\$ 202,405,091	\$ 198,284,123	\$ 4,120,968	2.1%

Contributions to the pension plan increased in 2005 as compared to 2004 primarily due to increased employer contributions.

The decrease in the change in plan net assets of \$10.0 million resulted primarily from a decrease in unrealized gains on investments in 2005.

CAPITAL ASSET AND DEBT ADMINISTRATION

2006 Capital Assets

As of December 31, 2006, the Board had invested approximately \$1.9 billion in capital assets. Net of accumulated depreciation, the Board's net capital assets at December 31, 2006 totaled approximately \$1.4 billion. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$71.9 million or 5.5% over December 31, 2005.

At December 31, 2006, the Board's budget for its five year capital improvements program totaled \$2.0 billion including \$404.0 million for water, \$825.2 million for sewerage and \$802.3 million for drainage. Due to certain regulatory and legislative changes, additional capital improvements will probably be required. Future capital improvement program expenditures may require the issuance of additional debt depending on the amount and timing of expenditures. As of December 31, 2006, the Board has committed or appropriated \$73.4 million in investments for use in future capital projects and has \$79.8 million of bond proceeds remaining for construction. The capital project investments are included in restricted assets.

The capital improvements budget for 2007 is \$454.8 million, including \$135.4 million for projects, which are expected to be funded by federal grants and programs. Significant projects included in property, plant and equipment in progress as of December 31, 2006 include the following:

Restoration of Systems Damaged as a result of Hurricane Katrina
Southeast Louisiana Flood Control Program
Sewer System Sanitation Evaluation and Rehabilitation Program
Drainage Pumping Station #1
Eastbank Sewer Treatment Plant
Westbank Sewer Treatment Plant

2005 Capital Assets

As of December 31, 2005, the Board had invested approximately \$1.9 billion in capital assets. Net of accumulated depreciation, the Board's net capital assets at December 31, 2005 totaled approximately \$1.3 billion. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$37.9 million or 3.0% over December 31, 2004. The net book value of property damages to power and pumping stations, treatment plants, distribution systems, sewerage collection systems, other buildings and equipment, and vehicles due to the flooding caused by Hurricane Katrina was \$49.2 million.

At December 31, 2005, the Board's budget for its five year capital improvements program totaled \$1.9 billion including \$426.0 million for water, \$738.1 million for sewerage and \$736.7 million for drainage. Due to certain regulatory and legislative changes, additional capital improvements will probably be required. Future capital improvement program expenditures may require the issuance of additional debt depending on the amount and timing of expenditures. As of December 31, 2005, the Board has committed or appropriated \$81.6 million in investments for use in future capital projects and has \$182.6 million of bond proceeds remaining for construction. The capital project investments are included in restricted assets.

The capital improvements budget for 2006 was \$658.6 million, including \$81.2 million for projects, which were expected to be funded by federal grants and programs.

2006 Debt Administration

The Board continues to make its regularly scheduled payments on its bonds. During 2006, \$24.0 million in new bonds were issued by the Board. Net proceeds of the bond issues were used to refund \$24.0 million of the \$137.0 million of bond anticipation notes from 2005. During 2006, \$148.4 million in principal payments were made.

The Board entered into a loan agreement in January 2006 with the Federal Emergency Management Agency under the Community Disaster Loan Act of 2005. During 2006, the Board made draw downs totaling \$46.0 million on the loan.

The Board entered into a Cooperative Endeavor Agreement with the State of Louisiana in July 2006 to borrow up to \$77.5 million from the Debt Service Assistance Fund. During 2006, the Board made draw downs of \$40.5 million on the loan program.

All bond debt covenants have been met.

2005 Debt Administration

The Board continues to make its regularly scheduled payments on its bonds. During 2005, \$137.0 million in new bonds were issued by the Board. Net proceeds of the bond issues were used to refund \$137.0 million of bond anticipation notes from 2003. During 2005, \$147.9 million in principal payments were made.

All bond debt covenants have been met.

Additional detailed information relating to capital assets and debt is presented in the financial statements and related notes.

ECONOMIC FACTORS AND RATES

In post Katrina, there are significant other revenues and expenses, which impact the Board. State and federal grants related to the disaster are expected to have a significant impact on 2007. Total FEMA debris removal, mitigation, and capital replacement grants are expected to exceed \$175.0 million. Of these approximately \$115.1 million has been recognized in 2005 and 2006. FEMA revenues will continue to be recognized as buildings, systems, and other reimbursable assets are repaired or replaced. In 2007, the Board will recognize additional portions of these revenues but much of the construction and replacement will not have been completed and the revenues although measurable may not be available due to the slowness of actual receipts of FEMA funds.

On March 21, 2007, the Board approved a series of five annual water rate increases beginning with the first increase on November 1, 2007 followed by four additional increases to be implemented on July 1 of each year, 2008 through 2011. The New Orleans City Council approved the annual water rate increases on October 4, 2007.

The number of open accounts has increased from approximately 121,000 at the end of 2005 to approximately 123,000 currently, an increase of 1.6%.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, patrons, and other interested parties with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Sewerage & Water Board of New Orleans at (504) 585-2356.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

STATEMENTS OF NET ASSETS

December 31, 2006 and 2005

ASSETS	2006	2005
Property, plant and equipment	\$ 1,957,036,563	\$ 1,851,147,896
Less: accumulated depreciation	567,790,683	533,849,067
Property, plant and equipment, net	<u>1,389,245,880</u>	<u>1,317,298,829</u>
Restricted assets:		
Capital projects	73,439,873	81,600,704
Construction funds	79,822,438	182,614,944
Debt service reserve	22,254,068	22,254,068
Customer deposits	4,923,373	5,417,248
Health insurance reserve	4,618,572	4,473,900
Debt service	4,549,843	1,882,216
Other	212,000	212,000
Total restricted assets	<u>189,820,167</u>	<u>298,455,080</u>
Current assets:		
Cash	15,043,720	4,495,796
Accounts receivable:		
Customers (net of allowance for doubtful accounts)	13,713,753	12,345,146
Taxes	9,076,530	7,409,194
Interest	1,211,945	894,335
Grants	40,800,812	38,596,551
Miscellaneous	6,887,221	3,313,386
Due from City of New Orleans, current	200,000	200,000
Due from other fund	290,778	290,778
Inventory of supplies	9,598,614	4,883,630
Prepaid expenses	487,171	638,250
Total current assets	<u>97,310,544</u>	<u>73,067,066</u>
Due from City of New Orleans, less current portion	<u>259,494</u>	<u>408,614</u>
Other assets:		
Bond issue costs	1,407,462	1,446,463
Deposits	51,315	51,315
Net pension asset	3,450,005	3,718,709
Total other assets	<u>4,908,782</u>	<u>5,216,487</u>
Total assets	<u>\$ 1,681,544,867</u>	<u>\$ 1,694,446,076</u>

(Continued)

SEWERAGE AND WATER BOARD OF NEW ORLEANS

STATEMENTS OF NET ASSETS (Continued)

	2006	2005
NET ASSETS AND LIABILITIES		
Net Assets:		
Invested in capital assets - net of related debt	\$ 1,183,354,778	\$ 1,092,139,700
Restricted For:		
Debt service	26,803,911	21,768,747
Capital projects	3,614,224	41,752,104
Total restricted for net assets	30,418,135	63,520,851
Total net assets	1,213,772,913	1,155,660,551
Liabilities:		
Long-term liabilities:		
Claims payable	5,471,541	6,371,799
Bonds payable (net of current maturities)	271,010,465	259,228,788
Special Community Disaster loan payable	46,011,566	-
Debt Service Assistance Fund loan payable	40,494,073	-
Capital leases payable (net of current maturities)	104,445	-
	363,092,090	265,600,587
Current liabilities (payable from current assets):		
Accounts payable	41,800,781	72,061,335
Due to City of New Orleans	(212,674)	748,746
Retainers and estimates payable	2,906,260	2,539,742
Due to pension trust fund	85,290	59,269
Accrued salaries	722,459	537,376
Accrued vacation and sick pay	9,436,585	9,874,395
Claims payable	27,337,513	27,170,348
Capital lease payable	2,656,227	806,172
Other liabilities	31,522	1,734
	84,763,963	113,799,117
Current liabilities (payable from restricted assets):		
Accrued interest	1,445,671	2,682,637
Bonds payable	11,942,403	148,545,285
Retainers and estimates payable	1,604,454	2,740,651
Customer deposits	4,923,373	5,417,248
	19,915,901	159,385,821
Total current liabilities	104,679,864	273,184,938
Total liabilities	467,771,954	538,785,525
Total net assets and liabilities	\$ 1,681,544,867	\$ 1,694,446,076

See accompanying notes to financial statements.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Sales of water and delinquent fees	\$ 33,799,760	\$ 38,727,266
Sewerage service charges	62,657,636	57,329,963
Plumbing inspection and license fees	590,242	175,260
Other revenue	<u>3,290,683</u>	<u>3,171,703</u>
Total operating revenues	<u>100,338,321</u>	<u>99,404,192</u>
Operating Expenses:		
Power and pumping	11,576,640	11,818,104
Treatment	13,518,870	13,736,515
Transmission and distribution	13,845,793	18,432,531
Customer accounts	1,910,612	2,413,631
Customer service	2,265,250	2,645,604
Administration and general	13,714,644	12,130,773
Payroll related	17,914,694	19,780,248
Maintenance of general plant	23,344,667	27,991,450
Depreciation	36,546,373	39,187,670
Amortization	208,045	360,445
Provision for doubtful accounts	22,355,906	6,582,465
Provision for claims	<u>2,658,657</u>	<u>7,289,990</u>
Total operating expenses	<u>159,860,151</u>	<u>162,369,426</u>
Operating loss	<u>(59,521,830)</u>	<u>(62,965,234)</u>
Non-operating revenues (expenses):		
Two-mill tax	3,699	1,407
Three-mill tax	9,682,028	12,990,040
Six-mill tax	9,803,052	13,152,643
Nine-mill tax	13,686,249	19,707,787
Other taxes	634,321	631,818
Operating and maintenance grants	35,013,143	9,338,528
Investment income	4,115,003	3,291,489
Hurricane gain (loss)	2,303,397	(55,909,262)
Investment expense	<u>(252,435)</u>	<u>(2,992)</u>
Total non-operating revenues (expenses)	<u>74,988,457</u>	<u>3,201,458</u>
Income (loss) before capital contributions	15,466,627	(59,763,776)
Capital contributions	<u>42,645,735</u>	<u>35,351,561</u>
Change in net assets	58,112,362	(24,412,215)
Net assets:		
Beginning of year	<u>1,155,660,551</u>	<u>1,180,072,766</u>
End of year	<u>\$ 1,213,772,913</u>	<u>\$ 1,155,660,551</u>

See accompanying notes to financial statements.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

STATEMENTS OF CASH FLOWS

ENTERPRISE FUND

For the years ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Cash received from customers	\$ 71,771,463	\$ 90,807,310
Cash payments to suppliers for goods and services	(111,667,859)	(54,394,902)
Cash payments to employees for services	(49,076,748)	(57,786,804)
Other revenue	2,610,487	1,575,732
Net cash used in operating activities	<u>(86,362,657)</u>	<u>(19,798,664)</u>
Cash flows from noncapital financing activities		
Proceeds from property taxes	32,142,013	43,812,308
Proceeds from federal operating and maintenance grants	7,956,631	-
Net cash provided by noncapital financing activities	<u>40,098,644</u>	<u>43,812,308</u>
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(64,347,356)	(69,087,981)
Proceeds of bond issue	24,030,000	137,189,060
Proceeds from Special Community Disaster loan	46,011,566	-
Proceeds from Debt Service Assistance Fund loan	40,494,073	-
Bond issuance costs	(169,044)	(140,001)
Principal payments on bonds payable	(148,435,000)	(147,885,000)
Interest paid on bonds payable	(17,491,816)	(17,193,506)
Principal payments on capital lease	(7,465,953)	(137,201)
Interest paid on capital lease	(252,435)	(2,992)
Capital contributed by developers and federal grants	67,497,986	6,328,629
Net cash used in capital and related financing activities	<u>(60,127,979)</u>	<u>(90,928,992)</u>
Cash flows from investing activities		
Payments for purchase of investments	(276,305,092)	(501,020,477)
Proceeds from maturities of investments	301,491,457	527,128,807
Investment income	8,798,878	9,628,693
Net cash provided by investing activities	<u>33,985,243</u>	<u>35,737,023</u>
Net decrease in cash	(72,406,749)	(31,178,325)
Cash at the beginning of the year	87,885,520	119,063,845
Cash at the end of the year	<u>\$ 15,478,771</u>	<u>\$ 87,885,520</u>
Reconciliation of cash and restricted cash (note 2)		
Current assets - cash	\$ 15,043,720	\$ 4,495,796
Restricted assets -cash	435,051	83,389,724
Total cash	<u>\$ 15,478,771</u>	<u>\$ 87,885,520</u>

(Continued)

SEWERAGE AND WATER BOARD OF NEW ORLEANS

STATEMENTS OF CASH FLOWS

(Continued)

ENTERPRISE FUND

For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of operating loss to net cash used in operating activities is as follows:		
Operating loss	\$ (59,521,830)	\$ (62,965,234)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	36,546,373	39,187,670
Provision for claims	2,658,657	7,289,990
Provision for doubtful accounts	22,355,906	6,582,465
Amortization	208,045	360,445
Change in operating assets and liabilities:		
Increase in customer and other receivable	(23,724,513)	(5,739,203)
Increase in inventory	(4,714,984)	(2,444,535)
Increase in prepaid expenses and other receivables	(970,239)	(1,932,101)
Decrease in net pension asset	268,704	960,932
Increase (decrease) in accounts payable	(54,918,688)	3,905,759
Decrease in accrued salaries, due to pension and accrued vacation and sick pay	(226,706)	(134,274)
Decrease in other liabilities	<u>(4,323,382)</u>	<u>(4,870,578)</u>
Net cash used in operating activities	<u>\$ (86,362,657)</u>	<u>\$ (19,798,664)</u>

Noncash investing, capital and financing activities:

The acquisition and construction of capital assets and capital contributed by developers and federal grants do not include non-cash amounts resulting from the construction by the U.S. Corps of Engineers of \$1,943,806 in drainage projects during the year ended December 31, 2005

See accompanying notes to financial statements.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

STATEMENTS OF PLAN NET ASSETS

PENSION TRUST FUND

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets:		
Cash	\$ 1,104,112	\$ 207,806
Receivables:		
Investment income	528,700	756,987
Employee contributions receivable	18,887	16,809
Due from other fund	113,203	-
Investments	<u>227,419,270</u>	<u>205,248,652</u>
Total assets	<u>229,184,172</u>	<u>206,230,254</u>
Liabilities:		
DROP participants payable	3,247,090	3,593,654
Due to other fund	<u>-</u>	<u>231,509</u>
Total liabilities	<u>3,247,090</u>	<u>3,825,163</u>
Plan net assets available for pension benefits	<u>\$ 225,937,082</u>	<u>\$ 202,405,091</u>

See accompanying notes to financial statements.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

STATEMENTS OF CHANGES IN PLAN NET ASSETS

PENSION TRUST FUND

For the years ended December 31, 2006 and 2005

	2006	2005
Additions:		
Contributions:		
Employee contributions	\$ 982,418	\$ 1,176,637
Employer contributions	3,343,713	3,716,381
City annuity and other transfers in	2,357,005	714,343
Total contributions	6,683,136	5,607,361
Investment income:		
Interest income	2,619,209	3,214,087
Dividend income	2,231,004	2,118,541
Net appreciation	24,449,373	3,642,420
	29,299,586	8,975,048
Less investment expense	(218,876)	(84,733)
Net investment income	29,080,710	8,890,315
Total additions	35,763,846	14,497,676
Deductions:		
Benefits	(9,905,119)	(8,494,829)
Employee refunds	(680,769)	(149,147)
Employee contributions to DROP	(1,645,967)	(1,732,732)
Total deductions	(12,231,855)	(10,376,708)
Change in plan net assets	23,531,991	4,120,968
Plan net assets at beginning of year	202,405,091	198,284,123
Plan net assets at end of year	\$ 225,937,082	\$ 202,405,091

See accompanying notes to financial statements.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

History and Organization

The major operation of the Sewerage and Water Board of New Orleans (the Board) is providing water, sewerage and drainage services for the City of New Orleans (City). The Sewerage and Water Board of New Orleans was created by Act 6 of the Louisiana Legislature of 1899 as a special board independent of the City's government to construct, maintain and operate a water treatment and distribution system and a public sanitary sewerage system for the City. In 1903, the Legislature gave the Board control of and responsibility for the City's major drainage system and relieved the City of the duty of providing in its annual operating budget or otherwise for the maintenance and operations of the water, sewerage and drainage systems.

In accordance with the Louisiana Revised Statutes (LRS) 33:4096 and 4121, the Board has the authority to establish the water and sewerage rates to charge to its customers. The rates are based on the actual water consumed and on the costs of maintenance and operation of the water and sewerage systems, including the costs of improvements and replacements. The collections of water and sewerage revenues are to be used by the Board for the maintenance and operation of the systems, the cost of improvements, betterments, and replacements, and to provide for the payments of interest and principal on the bonds payable. The Board has also been given the authority to levy and collect various tax millages which are used for the operation and maintenance of the drainage operations. All excess revenues collected are made available for capital development of the system. The proceeds of the rate collections and tax millages are invested in such investments as authorized by the LRS. These investments are reflected in the combined statement of net assets, as "restricted assets," as they are restricted to the purposes as described above.

The Board is composed of thirteen members, including the Mayor of the City, the 2 Council Members-at-Large, and one District Councilmember selected by the City Council, two members of the Board of Liquidation and seven citizens appointed by the Mayor. The appointed members of the Board serve staggered nine year terms.

The Board's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to utilities and to governmental units. The following is a summary of the more significant policies.

(A) Reporting Entity

In conformity with the Governmental Accounting Standards Board's definition of a reporting entity, the Board includes an enterprise fund and a pension trust fund for financial reporting purposes. The Board is considered a reporting entity based on the following criteria:

- (a) Responsibility for surpluses/deficits. The Board is solely responsible for its surpluses/deficits. In accordance with Louisiana Revised Statutes, no other governmental unit is responsible for the Board's deficits or has a claim to its surpluses. The Board's operations are self-sustaining; revenues are generated through charges to customers and dedicated property taxes. Other than grants, no funding is received from the State of Louisiana or the City of New Orleans.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(1) Summary of Significant Accounting Policies (continued)

- (b) **Budget Approval.** The Board is solely responsible for reviewing, approving and revising its budget.
- (c) **Responsibility for Debt.** The Louisiana Revised Statutes authorize the Board to issue bonds; such bonds must bear on their face a statement that they do not constitute a debt of the City. The Board is solely responsible for payments to the bondholders. No other governmental unit is required by statute to make any payments to bondholders nor have any payments to bondholders ever been made by any governmental unit, except the Board.
- (d) **Designation of Management.** The Board controls the hiring of management and employees.
- (e) **Special Financial Relationship.** The Board has no special financial relationships with any other governmental unit.
- (f) **Statutory Authority.** The Board's statutory authority was created by the State of Louisiana as an independent governmental unit. Only an amendment to state statutes can change or abolish the Board's authority.

The Board is a stand-alone entity as defined by Governmental Accounting Standards Board Statement 14, *The Financial Reporting Entity*. The Board is a legally-separate governmental organization that does not have a separately elected governing body and does not meet the definition of a component unit. As a result of a Louisiana Supreme Court decision on March 21, 1994, the Board was declared to be an autonomous or self-governing legal entity, legally independent of the city, state and other governments, created and organized pursuant to Louisiana Revised Statutes 33:4071 as a board, separate and independent of the governing authorities of the City and vested with autonomous or self governing authority. No other government can mandate actions of the Board nor impose specific financial burdens. The Board is fiscally independent to operate under its bond covenant and the provisions of Louisiana Revised Statute provisions.

The City of New Orleans includes the Board as a component unit in the City's financial statements.

(B) Basis of Financial Statement Presentation

The Board's basic financial statements consist of the government-wide statements which include the proprietary fund (the enterprise fund) and the fund financial statements which includes the fiduciary fund (the pension trust fund). The operations of the Board are accounted for in the following fund types:

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS (Continued)

(1) Summary of Significant Accounting Policies (continued)

Proprietary Fund Type

The proprietary fund is used to account for the Board's ongoing operations and activities which are similar to those often found in the private sector. The proprietary fund is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. Net assets are segregated into amounts invested in capital assets (net of related debt), restricted for debt service, restricted for capital projects and unrestricted. The Board's restricted assets are expendable for their purposes. The Board utilizes available restricted assets before utilizing unrestricted assets. The operating statements present increases (revenues) and decreases (expenses) in net assets. The Board maintains one proprietary fund type - the enterprise fund. The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance. The presentation of the financial statements of the enterprise fund follows the format recommended by the National Association of Regulatory Utility Commissioners (NARUC).

The statement of net assets arrangement for a utility reflects the relative importance of the various accounts. "Property, plant and equipment" is the first major category on the asset side, and long-term capitalization categories of net assets are listed first on the liability side. Current assets and current liabilities are assigned a relatively less important position in the center of the statement of net assets, rather than being placed first as in the statement of net assets of commercial and industrial enterprises.

Operating revenues include all charges for service; other revenues include reconnection fees and other miscellaneous charges. Operating expenses include the costs associated with providing water, sewerage and drainage services. Interest income, interest expense and tax revenues are presented non-operating items.

The enterprise fund is presented in the government-wide financial statements.

Fiduciary Fund Type

The fiduciary fund is used to account for assets held by the Board in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The Board maintains one fiduciary fund type - the pension trust fund. The pension trust fund uses the flow of economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included in the statement of plan net assets. The pension trust fund is used to account for the activity of the Board's employee retirement plan.

The pension trust fund is presented in the fund financial statements.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(1) Summary of Significant Accounting Policies (continued)

The Board applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its enterprise fund and pension trust fund operations unless those pronouncements conflict with or contradict GASB pronouncements.

(C) Basis of Accounting

The enterprise fund and the pension trust fund prepare their financial statements on the accrual basis of accounting. Unbilled utility service charges are not recorded as management considers the effect of not recording such unbilled receivables as not material. Property taxes are recorded as revenue in the year for which they are levied. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the pension plan are recognized when due and the employer has made a commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

(D) Investments

Investments are reported at fair value, except for short-term investments (maturity of one year or less) which are reported at amortized cost, which approximates fair value. Securities traded in a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

(E) Inventory of Supplies

Inventory of supplies is stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

(F) Property, Plant and Equipment

Property, plant and equipment are carried at historical cost. The Board capitalizes moveable equipment with a value of \$10,000 or greater, stationary, network and other equipment with a value of \$5,000 or greater and all real estate. The cost of additions includes contracted work, direct labor, materials and allocable cost. Donated fixed assets are recorded at their estimated fair value at the date of donation.

Interest is capitalized on property, plant, and equipment acquired and/or constructed with tax exempt debt. Depreciation is computed using the straight-line method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in revenue for the period. The cost of maintenance and repairs is charged to operations as incurred and significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS (Continued)

(I) Summary of Significant Accounting Policies (continued)

(G) Vacation and Sick Pay

Vacation (annual leave) and sick pay (sick leave) are accrued when earned. Annual leave is accrued at the rate of .6923 of a workday for each bi-weekly accrual period for all employees on the payroll as of December 31, 1978. Employees hired after that date earn leave at a rate of .5 of a workday per bi-weekly pay period.

All employees on the payroll as of December 31, 1978 receive three bonus days each year; all employees hired after that date receive three bonus days each year for five through nine calendar years of continuous service; six bonus days each year for ten through fourteen years; nine bonus days each year for fifteen through nineteen years; and, twelve days for twenty or more years of continuous service. Civil Service's policy permits employees a limited amount of earned but unused annual leave which will be paid to employees upon separation from the Board. The amount shall not exceed ninety days for employees hired before January 1, 1979, and forty-five days for employees hired after December 31, 1978.

Sick leave is accumulated on a bi-weekly basis by all employees hired prior to December 31, 1978 at an accrual rate of .923 of a workday. For employees hired subsequent to December 31, 1978, the accrual rate is .5 of a workday for each bi-weekly period, plus a two day bonus each year for employees with six through fifteen calendar years of continuous service, and seven bonus days each year for employees with sixteen or more calendar years of continuous service.

Upon separation from the Board, an employee can elect to convert unused sick leave for retirement credits or cash. The conversion to cash is determined by a rate ranging from one day of pay for five days of leave for the 1st through 100th leave day to one day of pay for one day of leave for all days in excess of the 400th leave day. The total liability for unconverted sick leave as December 31, 2006 and 2005 is \$12,132,000 and \$12,651,000, respectively. The amount included in the statements of net assets as of December 31, 2006 and 2005 is \$9,436,585 and \$9,874,395, respectively, which represents the annual leave and the converted sick leave since virtually all employees convert their sick leave to cash. The amounts for compensated absences include the salary cost as well as certain salary related costs, such as the Board's share of social security expense.

(H) Pension

The Board funds the accrued pension cost for its contributory pension plan which covers substantially all employees. Annual costs are actuarially computed using the entry age normal cost method.

(I) Drainage System

In 1903, the Legislature gave the Board control of and responsibility for the City's drainage system. The Drainage System was established as a department of the enterprise fund to account for the revenues from three-mill, six-mill and nine-mill ad valorem taxes designated exclusively for drainage services. These revenues have been supplemented by inspection and license fees

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(1) Summary of Significant Accounting Policies (continued)

collected by the Board. There exists a potential for additional financing by additional user service charges. Expenditures from the system are for the debt service of three-mill, six-mill and nine-mill tax bonds and drainage related operation, maintenance and construction.

(J) Self-Insurance/Risk Management

The Board is self-insured for general liability, worker's compensation, unemployment compensation and hospitalization benefits and claims. The accrued liability for the various types of claims represents an estimate by management of the eventual loss on the claims arising prior to year-end, including claims incurred and not yet reported including estimates of both future payments of losses and related claims adjustment and expense. Estimated expenses and recoveries are based on a case by case review.

(K) Capital Contributions

Contributions from developers and others, and receipts of Federal, State and City grants for acquisition of property, plant and equipment are recorded as a capital contributions in the statement of revenues, expenses and changes in net assets.

(L) Bond Issue Cost and Refinancing Gains (Losses)

Costs related to issuing bonds are capitalized and amortized based upon the methods used to approximate the interest method over the life of the bonds. Beginning with fiscal years in 1994 and thereafter, gains and losses associated with refundings and advance refundings are being deferred and amortized based upon the methods used to approximate the interest method over the life of the new bonds or the remaining term on any refunded bond, whichever is shorter. Premiums associated with bond issues are amortized over the interest yield method.

(M) Cash Flows

For purposes of the statement of cash flows, only cash on hand and on deposit at financial institutions are considered to be cash equivalents. Certificates of deposits, treasury bills and other securities are considered investments.

(2) Cash and Investments

The Board's investments and cash consist primarily of investments in direct obligations of the United States Treasury or agencies thereof and deposits with financial institutions.

Custodial Credit Risk – Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Statutes require that the Board's cash and certificates of deposit be covered by federal depository insurance or collateral. At December 31, 2006, the Board's deposits with banks consisted of cash totaling \$24,649,830 and certificates of deposit of \$103,878,781. Of the cash bank balance at December 31, 2006, \$1,200,000 is covered by federal depository insurance. At December 31, 2005, the bank balances of the Board's cash totaled \$7,199,051, money market funds held by an agent totaled \$84,057,931, and certificates of deposit totaled \$110,944,726. Of the cash bank balance at December 31, 2005,

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

\$1,200,000 is covered by federal depository insurance. The remaining amount of the Board's cash bank balances and all certificates of deposit for 2006 and 2005 were covered by collateral held by custodial agents of the financial institutions in the name of the Board, except for cash bank balances at one institution of \$66,192 and \$185,348, respectively, as of December 31, 2006 and 2005. Money market funds held by the Board's agent were covered by collateral held by custodial agents of the financial institution in the name of the Board's agent as of December 31, 2005.

The following are the components of the Board's cash and investments as of December 31:

<u>2006</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Enterprise Fund:			
Cash and money market funds	\$ 15,043,720	\$ 435,051	\$ 15,478,771
Certificates of deposit	-	103,878,781	103,878,781
	15,043,720	104,313,832	119,357,552
Investments	-	85,506,335	85,506,335
	\$ 15,043,720	\$ 189,820,167	\$ 204,863,887
<u>2005</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Enterprise Fund:			
Cash and money market funds	\$ 4,495,796	\$ 83,389,724	\$ 87,885,520
Certificates of deposit	-	110,944,726	110,944,726
	4,495,796	194,334,450	198,830,246
Investments	-	104,120,630	104,120,630
	\$ 4,495,796	\$ 298,455,080	\$ 302,950,876

The composition and carrying value of investments is as follows:

	<u>2006</u>	<u>2005</u>
Enterprise Fund:		
LAMP	\$ 6,050,000	\$ 8,250,000
U.S. Government Securities and Instrumentalities	79,456,335	95,870,630
	\$ 85,506,335	\$ 104,120,630
Pension Trust Fund:		
Money Market	\$ 1,746,802	\$ 4,653,357
Corporate Bonds	37,116,933	45,680,291
U.S. Government Securities and Instrumentalities	16,920,908	25,636,578
Foreign Obligations	350,191	826,759
Equities	149,448,099	128,451,667
Pooled Fixed Income Fund	21,836,336	-
	\$ 227,419,270	\$ 205,248,652

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS (Continued)

Investments - Statutes authorize the Board to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poors Corporation or P-1 by Moody's Commercial Paper Record, repurchase agreements, and the Louisiana Asset Management Pool (LAMP). In addition, the pension trust fund is authorized to invest in corporate bonds rated A or better by Standard & Poors Corporation or AAA or better by Moody's Investors Service, and equity securities.

LAMP is administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with Louisiana R.S. 33:2955. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U.S. Treasury, the U.S. Government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities. The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to provide immediate access to participants. The fair market value of investments is determined on a weekly basis to monitor any variances between amortized cost and market value. For purposes of determining participants' shares, investments are valued at amortized cost.

Under the provisions of its benefit plan and state law, the Board's pension benefit trust engages in securities lending to broker dealers and other entities for cash collateral that will be returned for the same securities in the future. The cash collateral cannot be liquidated by the Board unless the borrower defaults. Cash collateral is initially pledged at 102% of the market value of securities lent and additional collateral is provided by the next business day if the value falls to less than 100% of the market value of the securities lent. No collateral exposure existed as of December 31, 2006 and 2005. The value of securities lent at December 31, 2006 and 2005 was \$53,953,367 and \$57,510,837. The market value of the cash collateral at December 31, 2006 and 2005 was \$55,898,006 and \$59,706,496.

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Board has a formal investment policy that states that *the investment portfolio shall remain sufficiently liquid to meet all operating and capital requirements that may be reasonably anticipated and that maturities of investments are to be structured in concurrent with cash needs to meet anticipated demand.*

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

As of December 31, 2006, the Board's Enterprise Fund investments in U.S. Government Securities and Instrumentalities included U.S. Treasury Bills and Strips totaling \$79,456,335, all of which have a remaining maturity of less than one year.

The following table shows the Pension Trust Fund's investments and maturities in actively managed accounts at December 31, 2006:

	Fair Value	Remaining Maturity (in Years)			
		Less Than One	1-5	5-10	>10
Mortgage Backed Securities	16,920,908	-	2,270,203	739,154	13,911,551
Corporate Bonds	37,116,933	375,285	7,373,483	7,892,676	17,184,937
Foreign Obligations	350,191	81,682	45,869	222,640	-
	<u>54,388,032</u>	<u>456,967</u>	<u>9,689,555</u>	<u>8,854,470</u>	<u>35,387,040</u>

Credit Risk - State law limits investments in securities issued, or backed by United States Treasury obligations, and U.S. Government instrumentalities, which are federally sponsored. The Board's investment policy does not further limit its investment choices. LAMP is rated AAAM by Standard & Poor's. The Pension Trust Fund's investment policy requires that fixed income investments be investment grade (BBB or higher as rated by Standard & Poor's or Baa or higher as rated by Moody's. Bonds rated below BBB/Baa are not to exceed 15% of the portfolio and non-rated bonds are not to exceed 1% of the portfolio.

The following table is provided for use in determining the Pension Trust Fund's level of exposure to credit risk as of December 31, 2006:

S&P Rating	Fair Value at December 31, 2006
Agency/AAA	\$ 16,920,908
AAA	2,610,941
AA	1,671,980
A	16,802,491
BBB	13,813,458
BB	1,658,400
B	899,854
In Default	<u>10,000</u>
	<u>\$ 54,388,032</u>

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(3) Defined Benefit Pension Plan

The Board has a single-employer contributory retirement plan covering all full-time employees, the Pension Trust Fund (PTF). The Board's payroll for current employees covered by PTF for the years ended December 31, 2006 and 2005 was \$25,931,584 and \$30,050,827, respectively; such amounts exclude overtime and standby payroll. Total payroll, including overtime and standby payroll, was \$34,027,902 and \$43,430,938 for the years ended December 31, 2006 and 2005, respectively. At December 31, the PTF membership consisted of:

	<u>2006</u>	<u>2005</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	741	672
Current employees:		
Vested	680	856
Non-vested	137	238
	<u>817</u>	<u>1,094</u>
Total	<u>1,558</u>	<u>1,766</u>

The benefit provisions were established by action of the Board in 1956 in accordance with Louisiana statutes. The Board retains exclusive control over the plan through the Pension Committee of the PTF. Effective January 1, 1996, the plan became qualified under Internal Revenue Code Section 401(a) and thus is tax exempt.

The plan provides for retirement benefits as well as death and disability benefits. All benefits vest after ten years of service. Employees who retire at or after age sixty-five with ten years of credited service are entitled to an annual retirement benefit, payable biweekly for life, in an amount equal to two percent of their average compensation for each year of credited service up to ten years, increasing by (1) one-half percent per year for service years over ten years, (2) an additional one-half percent per year for service years over twenty years and (3) an additional one percent per year for service years over thirty years, for a maximum of four percent for each year of credited service. Average compensation is the average annual earned compensation (prior to 2002, less \$1,200) for the period of thirty-six successive months of service during which the employee's compensation was the highest. Employees with thirty years or more of credited service may retire without a reduction in benefits. Employees may retire prior to age sixty-two without thirty years of service with a reduction in benefits of three percent for each year of age below the age of sixty-two. If an employee leaves covered employment or dies before three years of credited service, the accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary.

The retirement allowance for retirees over age sixty-two is subject to a cost of living adjustment each January 1, provided that the member retired on or after January 1, 1984. The adjustment is based on the increase in the Consumer Price Index for all urban wage earners published by the U.S. Department of Labor, but is limited to an annual maximum of two percent on the first \$10,000 of initial retirement benefits.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

Effective September 23, 1993, employers may transfer credit between the Board's plan and the City of New Orleans retirement system with full credit for vested service. The Board and its employees are obligated under plan provisions to make all required contributions to the plan. The required contributions are actuarially determined. Level percentage of payroll employer contribution rates is determined using the entry age normal actuarial funding method. Employees are required to contribute four percent of their regular salaries or wages.

The Board had attained full funding of the actuarially computed pension liability in 2000. Effective June 19, 2002, however, as a result of the adoption of several plan changes in accordance with the Board's reciprocity agreement with the City of New Orleans, the plan became unfunded. These changes impacted the plan's funding requirements by \$20,333,835, which is being amortized over a 10 year period. Key changes adopted included: (a) amendment to benefit formula; (b) adoption of a "Rule of 80" retirement; (c) change in the years of service required for a terminating employee to qualify for a later separation benefit from 10 years to 5 years; and (d) elimination of the exclusion of the first \$1,200 of earnings from benefits and contributions.

The annual required contribution for the current year was determined as part of the December 31, 2006 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 7.0% investment rate of return (net of administrative expenses) and (b) projected salary increase of 5.0% per year. Both (a) and (b) included an inflation component of 2.0%. The actuarial value of assets was determined using a seven-year weighted market average.

The Board's net pension asset for the years ended December 31 was as follows:

	<u>2006</u>	<u>2005</u>
Annual required contribution	\$ 4,073,502	\$ 4,702,354
Interest on net pension obligation	(260,310)	(327,575)
Adjustments to annual required contribution	<u>513,197</u>	<u>841,649</u>
Annual pension cost	4,326,480	5,216,428
Contributions made	<u>4,057,774</u>	<u>4,255,496</u>
Decrease in net pension asset	268,706	960,932
Net pension asset, beginning of year	<u>3,718,709</u>	<u>4,679,641</u>
Net pension asset, end of year	<u>\$ 3,450,005</u>	<u>\$ 3,718,709</u>

The net pension asset is being amortized over 7 years as of December 31, 2006, using the level dollar closed method and using the same interest, salary increase and inflation factors as the plan.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS (Continued)

Trend information for Board and employee contributions is as follows:

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
Fiscal year ending:			
December 31, 2006	\$ 4,326,480	80%	\$ 3,450,005
December 31, 2005	\$ 5,216,428	85%	\$ 3,718,709
December 31, 2004	\$ 4,837,806	77%	\$ 4,679,641
December 31, 2003	\$ 3,721,963	91%	\$ 6,130,718

The actuarially determined contribution requirement for the Board was 11.227% for 2004, 14.161% for 2005 and 15.648% for 2006. The requirement for employees is 4.0 percent. The actual Board's and employees' contributions (including contributions for transferred employees from other pension plans) for years ended December 31 were as follows:

	<u>2006</u>	<u>2005</u>
Employer and other transfers	\$ 5,700,718	\$ 4,430,724
Employee	982,418	1,176,637
Total Contributions	\$ <u>6,683,136</u>	\$ <u>5,607,361</u>

DROP

Beginning in 1996, the Board offered employees a "Deferred Retirement Option Plan" (DROP), an optional retirement program which allows an employee to elect to freeze his or her retirement benefits, but continue to work and draw a salary for a minimum period of one year to a maximum period of five years. While continuing employment, the retirement benefits are segregated from overall plan assets available to other participants. As of December 31, 2006 and 2005, 62 and 66 employees, respectively, participated in the plan. The amount of plan assets segregated for these individuals was \$3,247,090 and \$3,593,654 as of December 31, 2006 and 2005, respectively.

A separate report on the pension trust fund is not issued.

(4) Property, Plant and Equipment

The useful lives of property, plant and equipment consisted of the following:

Pumping station buildings	57 years
Pumping station machinery	40 years
Canals and subsurface drains	75 to 100 years
Power transmission	50 years
General plant items	12 years
General buildings	25 years

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS (Continued)

(4) Property, Plant and Equipment (continued)

Property, plant and equipment consisted of the following as of December 31:

	2006			
	Beginning Balance	Additions	Deletions	Ending Balance
Real estate rights, non depreciable	\$ 8,637,623	\$ 1,902	\$ -	\$ 8,639,525
Power and pumping stations - buildings	272,440,061	6,383,434	-	278,823,495
Power and pumping stations - machinery	222,309,357	195,411	-	222,504,768
Distribution systems	119,781,310	476,145	(1,180,259)	119,077,196
Sewerage collection	221,151,432	7,961,848	(917,786)	228,195,494
Canals and subsurface drainage	280,333,767	545,636	-	280,879,403
Treatment plants	109,084,206	4,291,267	-	113,375,473
Connections and meters	37,944,578	754,391	(171,339)	38,527,630
Power transmission	23,683,427	-	(75,759)	23,607,668
General plant	175,806,760	1,705,306	(259,614)	177,252,452
General buildings	7,586,547	-	-	7,586,547
Total property, plant and equipment in service	1,478,759,068	22,315,340	(2,604,757)	1,498,469,651
Construction in progress	372,388,828	124,473,112	(38,295,028)	458,566,912
Total property, plant and Total	1,851,147,896	146,788,452	(40,899,785)	1,957,036,563
Accumulated depreciation	533,849,067	36,546,373	(2,604,757)	567,790,683
Net	\$ 1,317,298,829	\$ 110,242,079	\$ (38,295,028)	\$ 1,389,245,880

	2005			
	Beginning Balance	Additions	Deletions	Ending Balance
Real estate rights, non depreciable	\$ 8,631,997	\$ 5,626	\$ -	\$ 8,637,623
Power and pumping stations - buildings	252,782,300	20,222,455	(564,694)	272,440,061
Power and pumping stations - machinery	230,233,999	3,700,556	(11,625,198)	222,309,357
Distribution systems	118,769,391	2,572,995	(1,561,076)	119,781,310
Sewerage collection	191,983,305	38,755,793	(9,587,666)	221,151,432
Canals and subsurface drainage	277,039,373	3,294,394	-	280,333,767
Treatment plants	117,214,963	24,102,176	(32,232,933)	109,084,206
Connections and meters	41,974,467	226,904	(4,256,793)	37,944,578
Power transmission	25,838,333	-	(2,154,906)	23,683,427
General plant	207,154,248	6,528,721	(37,876,209)	175,806,760
General buildings	9,277,426	-	(1,690,879)	7,586,547
Total property, plant and equipment in service	1,480,899,802	99,409,620	(101,550,354)	1,478,759,068
Construction in progress	345,516,334	126,716,291	(99,843,797)	372,388,828
Total property, plant and Total	1,826,416,136	226,125,911	(201,394,151)	1,851,147,896
Accumulated depreciation	546,973,223	39,187,671	(52,311,827)	533,849,067
Net	\$ 1,279,442,913	\$ 186,938,240	\$ (149,082,324)	\$ 1,317,298,829

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS (Continued)

(4) Property, Plant and Equipment (continued)

Interest capitalized was as follows for the years ended December 31:

		2006		2005
Interest income	\$	5,001,485	\$	6,812,963
Interest expense		(15,838,645)		(16,288,022)
Net interest capitalized	\$	(10,837,160)	\$	(9,475,059)

(5) Customer Receivables

Customer receivables as of December 31 consist of the following:

		Customer Accounts	Allowance for Doubtful Accounts	Net
2006	Water	\$ 19,229,415	\$ 13,494,623	\$ 5,734,792
	Sewer	26,597,640	18,618,679	7,978,961
		<u>\$ 45,827,055</u>	<u>\$ 32,113,302</u>	<u>\$ 13,713,753</u>
2005	Water	\$ 10,959,487	\$ 5,515,790	\$ 5,443,697
	Sewer	12,941,475	6,040,026	6,901,449
		<u>\$ 23,900,963</u>	<u>\$ 11,555,816</u>	<u>\$ 12,345,146</u>

(6) Due from the City of New Orleans

In accordance with the terms of an agreement with the City of New Orleans, the Board and the City agreed to offset \$2,098,687 (net of unearned discount \$285,696) owed by the City to the Board at the rate of \$200,000 annually in lieu of civil service charges through 2009. As of December 31, 2006 and 2005, \$459,494 and \$608,614, respectively, was due from the City of New Orleans.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(7) Changes in Long-term Obligations

a. Bonds Payable

Bonds payable consisted of the following as of December 31:

	<u>Principal Balances</u>	
	<u>2006</u>	<u>2005</u>
5.00% to 6.25% sewerage revenue bonds, series 1997 (initial average interest cost 5.36%), due in annual principal installments ranging from \$1,100,000 to \$2,425,000; final payment due June 1, 2017	\$ 20,590,000	\$ 21,920,000
4.125% to 6.125% water revenue bonds, series 1998 (initial average interest cost 4.82%), due in annual principal installments ranging from \$625,000 to \$1,220,000; final payment due December 1, 2018	11,495,000	12,185,000
4.125% to 6.000% sewer revenue bonds, series 1998 (initial average interest cost 4.82%), due in annual principal installments ranging from \$950,000 to \$1,910,000; final payment due June 1, 2018	17,960,000	19,035,000
4.10% to 6.10% drainage system bonds, series 1998 (initial average interest cost 4.84%), due in annual principal installments ranging from \$370,000 to \$760,000; final payment due December 1, 2018	7,100,00	7,525,000
5.25% to 6.50% sewer revenue bonds, series 2000 (initial average interest cost 5.48%), due in annual principal installments ranging from \$820,000 to \$2,205,000; final payment due June 1, 2020	21,715,000	22,690,000
5.00% to 7.00% sewer revenue bonds, series 2000B (initial average interest cost 5.43%), due in annual principal installments ranging from \$640,000 to \$1,660,000; final payment due June 1, 2020	16,555,000	17,315,000
4.40% to 6.70% sewer revenue bonds, series 2001 (initial average interest cost 5.02%), due in annual principal installments ranging from \$1,100,000 to \$2,455,000; final payment due December 1, 2021	27,100,000	28,350,000
3.00% to 5.00% sewerage service revenue bonds, series 2002 (initial average interest cost 4.36%; due in annual principal installments ranging from \$1,635,000 to \$4,520,000; final payment due June 1, 2022.	\$ 49,900,000	\$ 51,820,000

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS (Continued)

(7) Changes in Long-term Obligations

a. Bonds Payable (continued)

	<u>Principal Balances</u>	
	<u>2006</u>	<u>2005</u>
3.00% to 5.00% water revenue bonds, series 2002 (initial average interest cost 4.57%, due in annual principal installments ranging from \$945,000 to \$3,658,000; final payment due December 1, 2022.	\$ 31,015,000	\$ 32,060,000
3.45% to 6.00% drainage system bonds, series 2002 (initial average interest cost 4.46%), due in annual principal installments ranging from \$510,000 to \$2,155,000; final payment due December 1, 2022.	17,805,000	18,395,000
2.20% to 5.00% sewerage service revenue bonds, series 2003 (initial average interest cost 4.45%); due in annual principal installments ranging from \$140,000 to \$395,000; final payment due June 1, 2023.	4,935,000	5,150,000
3.25% to 6.00% sewerage service revenue bonds, series 2004 (initial average interest cost 4.62%); due in annual principal installments ranging from \$945,000 to \$3,685,000; final payment due June 1, 2024.	30,710,000	31,870,000
2.68% sewerage service refunding bond anticipation notes, series 2005 (initial average interest cost 3.00%); due in one principal installment of \$137,000,000 on July 26, 2006.	-	137,000,000
5.02% sewerage service refunding bond anticipation notes, series 2006; due in one principal installment of \$24,030,000 on July 15, 2009.	24,030,000	-
	280,910,000	405,315,000
Plus bond premiums	2,042,868	2,459,073
Total	282,952,868	407,774,073
Less current maturities	11,942,403	148,545,285
Bond payable, long-term	\$ 271,010,465	\$ 259,228,788

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(7) Changes in Long-term Obligations

a. Bonds Payable (continued)

The changes in long-term debt were as follows:

		<u>2006</u>		<u>2005</u>
Balance, beginning of year	\$	405,315,000	\$	416,200,000
Issuances		24,030,000		137,000,000
Payments		<u>(148,435,000)</u>		<u>(147,885,000)</u>
Balance, end of year	\$	<u>280,910,000</u>	\$	<u>405,315,000</u>

The annual requirements to amortize all bonds payable as of December 31, 2006, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 12,020,000	\$ 13,423,600	\$ 25,443,600
2008	12,635,000	12,863,070	24,498,070
2009	37,300,000	11,056,512	48,356,512
2010	13,925,000	10,449,008	24,374,008
2011	14,630,000	9,807,092	24,437,092
2012-2016	84,845,000	37,501,134	122,346,134
2017-2021	87,455,000	14,878,187	102,333,187
2022-2024	<u>18,100,000</u>	<u>910,337</u>	<u>19,010,337</u>
Total	\$ <u>280,910,000</u>	\$ <u>110,888,940</u>	\$ <u>391,798,940</u>

The amount of revenue bonds and tax bonds payable as of December 31, 2006, are as follows:

<u>Year</u>	<u>Revenue Bonds</u>	<u>Tax Bonds</u>	<u>Total</u>
2007	\$ 10,950,000	\$ 1,070,000	\$ 12,020,000
2008	11,510,000	1,125,000	12,635,000
2009	36,115,000	1,185,000	37,300,000
2010	12,690,000	1,235,000	13,925,000
2011	13,330,000	1,300,000	14,630,000
2012-2016	77,390,000	7,455,000	84,845,000
2017-2021	78,075,000	9,380,000	87,455,000
2022-2024	<u>15,945,000</u>	<u>2,155,000</u>	<u>18,100,000</u>
Total	\$ <u>256,005,000</u>	\$ <u>24,905,000</u>	\$ <u>280,910,000</u>

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS (Continued)

(7) Changes in Long-term Obligations

a. Bonds Payable (continued)

The indentures under which these bonds were issued provide for the establishment of restricted funds for debt service as follows:

1. Debt service funds are required for the payment of interest and principal on the revenue and tax bonds. Monthly deposits on revenue bonds, excluding bond anticipation notes, are required to be made into this fund from operations in an amount equal to 1/6 of the interest falling due on the next interest payment date, and an amount equal to 1/12 of the principal falling due on the next principal payment date. All debt service funds are administered by the Board of Liquidation. The required amount to be accumulated in this fund was \$5,446,578 and \$5,277,555 at December 31, 2006 and 2005, respectively; the accumulated balance at December 31, 2006 and 2005 was \$2,943,232 and \$1,882,216, respectively. Monthly deposits to the debt service funds are temporarily suspended due to debt service payments being paid directly by the State of Louisiana through a Cooperative Endeavor Agreement. See note (7) c. for additional information.
2. A debt service reserve is required for an amount equal to but not less than fifty percent of the amount required to be credited in said month to the debt service fund until there shall be accumulated in the debt service reserve account the largest amount required in any future calendar year to pay the principal and interest on outstanding bonds, except for the water and sewer bonds. The water and sewer bonds require an amount equal to the largest amount required in any future calendar year to pay the principal of and interest on outstanding bonds. There is no debt service reserve required for the 1998 and 2002 drainage 9 mill tax bonds. The required amount to be accumulated in this fund was \$22,289,918 at December 31, 2006 and 2005; the accumulated balance at December 31, 2006 and 2005 was \$22,254,068.

The net operating revenues of the Sewerage Department of the Board for the year ended December 31, 2006 were adequate to meet the bond indenture required debt service coverage of 130 percent. The Board is in compliance with the requirements of its long-term debt agreements for the Sewerage Department at December 31, 2006. The net operating revenues of the Water Department were not adequate to meet the debt service coverage requirement. However, debt service payments are being paid directly by the State of Louisiana through a Cooperative Endeavor Agreement. See note (7) c. for additional information.

In 2003, the statutes were revised and there is no longer a statutory limit on tax bonds.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

b. Special Community Disaster Loan Payable

During January 2006, the Board entered into a long-term agreement with the Federal Emergency Management Agency under the Community Disaster Loan Act of 2005 as a result of the major disaster declaration of August 29, 2005 for Hurricane Katrina. During 2006, the Board made draw downs totaling \$46,011,566. Subsequent to December 31, 2006, the Board has drawn down the remaining \$17,698,973 of the \$63,710,539 total funds available. The loan is for a term of five years, which may be extended, and shall bear interest at the latest five-year Treasury rate at the time of the closing date of the loan, plus one percent. Simple interest accrues from the date of each disbursement. Payments of principal and interest are deferred until the end of the five year period.

Interest rates and maturity dates for the draw downs are as follows:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal</u>
January 23, 2011	2.66%	\$ 22,298,689
June 21, 2011	3.12%	6,013,905
August 27, 2011	2.93%	17,698,972
		<u>\$ 46,011,566</u>

Operating revenues are pledged as security for the loan.

Debt service requirements relating to the loan due in 2011 include \$46,011,566 of principal and \$6,301,266 of interest.

c. Loan Program

In July 2006, the Board and the State of Louisiana (the State) entered into a Cooperative Endeavor Agreement whereby the State agreed to lend up to \$77,465,247 from State funds on deposit in the Debt Service Assistance Fund, authorized by the Gulf Opportunity Zone Act of 2005 and Act 41 of the First Extraordinary Session of the Louisiana Legislature of 2006, to assist in payment of debt service requirements from 2006 through 2008 due to disruption of tax bases and revenue streams caused by Hurricanes Katrina and Rita. Draw downs on the loan will be made as debt service payments become due. No principal or interest shall be payable during the initial five year period of the loan. After the expiration of the initial five year period, the loan shall bear interest at a fixed rate of 4.64 percent. Principal payments on the bonds begin in July 2012 and the loan will mature in July 2026. Interest is payable semi-annually on January 15 and July 15 beginning January 2012. The loan may be prepaid without penalty or premium. The Board has the right to request one extension of its obligation to begin payments under the loan not to exceed five years. As of December 31, 2006, the Board has drawn down \$40,494,073 on this agreement.

Debt service requirements relating to the bond are as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,928,012	\$ 1,878,925	\$ 3,806,937
2013-2017	11,067,918	7,966,767	19,034,685
2018-2022	13,885,278	5,149,406	19,034,684
2023-2027	13,612,865	1,614,882	15,227,747
	<u>\$ 40,494,073</u>	<u>\$ 16,609,980</u>	<u>\$ 57,104,053</u>

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

d. Capital Lease

During October 2005, the Board entered into a capital lease for the replacement of vehicles damaged during Hurricane Katrina totaling \$943,373. Additional vehicles totaling \$8,762,253 were purchased during 2006 under the same terms. Payments on these capital leases under separate payment schedules are based on the date of delivery beginning in October 2005 and ending March 2007. Lease terms include monthly payments of principal and interest at an interest rate of 2.68%. This capital lease is secured by a security interest in the vehicles. As of December 31, 2006, future minimum lease payments for the capital lease of \$1,687,180 are scheduled to be paid during 2007.

During August 2006, the Board entered into a capital lease for the replacement of vehicles damaged during Hurricane Katrina totaling \$658,200 with payments beginning in August 2006 and ending March 2008. Lease terms include monthly payments of principal and interest at an interest rate of 8.08%. This capital lease is secured by a security interest in the vehicles. As of December 31, 2006, future minimum lease payments for the capital lease of \$423,416 and \$105,854, respectively, are scheduled to be paid during 2007 and 2008.

The vehicles subject to the capital lease are included in property plant and equipment - general plant with a net book value of \$9,438,569.

(8) Due to City of New Orleans

The Board bills and collects sanitation charges on behalf of the City of New Orleans (City). The Board is not liable for any uncollected sanitation charges. The amount due the City for sanitation fees collected was \$212,774 and \$778,597 at December 31, 2006 and 2005, respectively.

Additionally, amounts included in accounts payable due to the city were \$65,722 and \$2,771,061 at December 31, 2006 and December 31, 2005, respectively.

(9) Property Taxes

Property taxes are levied by the City of New Orleans. Taxes on real and personal property attach as an enforceable lien on the property as of January 1. Taxes are levied on January 1, are payable on January 1, and are delinquent on February 1.

The assessed value of the property is determined by an elected Board of Assessors. The assessed value for 2006 was \$1,997,667,374. The combined tax rate dedicated for the Board for the years ended December 31, 2006 and 2005 was \$22.59 per \$1,000 of assessed valuation. These dedicated funds are available for operations, maintenance, construction and extension of the drainage system (except for subsurface systems).

SEWERAGE AND WATER BOARD OF NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS
(Continued)

(10) Commitments

a. Capital Improvements

At December 31, 2006, the Board's budget for its five year capital improvements program totaled \$2,031,430,000 including \$403,982,000 for water, \$825,151,000 for sewerage and \$802,297,000 for drainage.

Due to certain regulatory and legislative changes, additional capital improvements will probably be required. Future capital improvement program expenditures may require the issuance of additional debt depending on the amount and timing of expenditures. As of December 31, 2006, the Board has committed or appropriated \$73,439,873 in investments for use in future capital projects and has \$79,822,438 of bond proceeds remaining for construction. The capital project investments are included in restricted assets.

The capital improvements budget for 2007 is \$454,801,000, including \$135,379,000 for projects, which are expected to be funded by federal grants and programs. Significant projects included in property, plant and equipment in progress as of December 31, 2006 include the following:

Restoration of Systems Damaged as a result of Hurricane Katrina
Southeast Louisiana Flood Control Program
Sewer System Sanitation Evaluation and Rehabilitation Program
Drainage Pumping Station #1
Eastbank Sewer Treatment Plant
Westbank Sewer Treatment Plant

b. Self-insurance

The Board is self-insured for general liability, worker's compensation, and hospitalization benefits and claims. Settled claims have not exceeded excess coverage in any of the past three fiscal years. Hospitalization benefits are charged to payroll related expense.

General liability claims are segregated internally by "claims" and "suits" depending on the scope and type of claim, and are handled by the Office of the Special Counsel and Administrative Services. Individual general liability losses have ranged from \$100 to \$7,500,000, illustrating the volatility of this exposure. The provision for claims expense for 2006 and 2005 amounted to \$1,187,809 and \$5,156,246, respectively.

Worker's compensation expense provision for 2006 and 2005 amounted to \$1,470,850 and \$1,456,323, respectively.

The hospitalization self-insurance benefits are administered by Blue Cross of Louisiana. The Board's expense provision in excess of employee contributions for 2006 and 2005 was approximately \$10,600,000 and \$10,500,000, respectively, and is included in payroll related expenses.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS (Continued)

(10) Commitments (continued)

b. Self-insurance (continued)

Changes in the claims payable amount are as follows (health payments are reflected net):

<u>Fiscal Year</u>	<u>Beginning of Year</u>	<u>Current Year Claims and Estimate Change</u>	<u>Claim Payments</u>	<u>End of Year</u>
2006	\$ 33,542,147	13,601,729	14,334,822	32,809,054
2005	\$ 31,600,595	17,121,153	15,179,601	33,542,147

The composition of claims payable is as follows:

	<u>2006</u>	<u>2005</u>
Short-term:		
Workers' Compensation	\$ 815,123	\$ 915,187
Health Insurance	2,691,023	2,420,289
General Liability	23,831,367	23,834,872
Total short-term	27,337,513	27,170,348
Long-term:		
Workers' Compensation	5,171,541	5,771,799
General Liability	300,000	600,000
Total long-term	5,471,541	6,371,799
Total	<u>\$ 32,809,054</u>	<u>\$ 33,542,147</u>

c. Regulatory Matters

The Board, as well as other utilities, is subject to environmental standards imposed by federal, state and local environmental laws and regulations. The Board has entered into a consent decree with the United States which allows the Board to go forward with its major program to repair and rehabilitate the sewerage system while drawing on a \$100 million commitment from the United States Environmental Protection Agency. The Board expended \$39,347,784 of the commitment at December 31, 2006 and 2005. The overall costs of the program are estimated at \$604.8 million over a period ending in 2010. The Board is in compliance with the decree.

The Board is also participating in Federal financial award programs which are subject to financial and compliance audits by various agencies. No disallowed costs have been identified. As part of Federal and other governmental agency funding, the Board is required to match a portion of funding received. The Board believes it has sufficient funds to meet its matching requirements.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS (Continued)

(10) Commitments (continued)

d. Postemployment Healthcare Benefits

In addition to providing pension benefits, the Board provides certain health care benefits for retired employees in accordance with its pension plan provisions. All of the Board's employees may become eligible for those benefits if they reach normal retirement age while working for the Board. The cost of retiree health care is recognized when incurred including an estimate for the amount incurred but not yet reported. For 2006 and 2005, the costs incurred by the Board for those benefits were approximately \$5,217,528 and \$3,507,992, respectively, net of retiree contributions of \$294,585 and \$231,283, respectively. The number of participants eligible to receive health care benefits was 740 and 706 as of December 31, 2006 and 2005, respectively.

(11) Deferred Compensation Plan

The Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property, and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the employees, therefore the assets of the plan are not included in these financial statements.

(12) Budgets

Operating and capital expenditure budgets are adopted by the Board on a basis consistent with accounting principles generally accepted in the United States. While not legally required, this budgetary information is employed as a management control device during the year. Comparison between actual and budgeted expenses is not a required presentation for an Enterprise Fund.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS (Continued)

(13) Segment Information

The Board issued revenue bonds to finance its water and sewerage departments which operate the Board's water and sewerage treatment plants and distribution and collection systems. These bonds are accounted for in a single fund; however, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment.

Summary financial information for these departments as of and for the year ended December 31 is as follows:

	<u>Condensed Statements of Net Assets</u>			
	<u>Water</u>		<u>Sewer</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(amounts in thousands)			
Assets:				
Property, plant and equipment	\$ 266,754	\$ 241,727	\$ 548,015	\$ 508,633
Restricted assets	25,179	27,733	83,077	182,042
Current	33,566	10,631	34,465	36,566
Other assets	2,047	2,268	2,239	2,382
Total assets	\$ 327,546	\$ 282,359	\$ 667,796	\$ 729,623
Net assets:				
Invested in capital assets, net of related debt	\$ 227,822	\$ 205,121	\$ 390,682	\$ 327,013
Restricted	(22,741)	(13,005)	(9,071)	20,460
Total net assets	205,081	192,116	381,611	347,473
Liabilities:				
Current	23,343	37,159	31,051	38,298
Current liabilities payable from restricted assets	7,189	7,595	11,159	150,569
Noncurrent liabilities	91,933	45,489	243,975	193,283
Total liabilities	122,465	90,243	286,185	382,150
Total liabilities and net assets	\$ 327,546	\$ 282,359	\$ 667,796	\$ 729,623

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS (Continued)

(13) Segment Information (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>Water</u>		<u>Sewer</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(amounts in thousands)			
Service charges, pledged against bonds	\$ 36,378	\$ 40,717	\$ 63,011	\$ 57,674
Depreciation expense	(12,715)	(13,574)	(11,519)	(12,443)
Other operating expenses	(51,000)	(56,237)	(46,956)	(37,217)
Operating income	(27,337)	(29,094)	4,536	8,014
Nonoperating revenues (expenses):				
Investment earnings	-	-	896	821
Other	7,107	(9,209)	26,046	(23,391)
Capital contributions	33,194	9,317	2,660	9,577
Change in net assets	12,964	(28,986)	34,138	(4,979)
Beginning net assets	221,103	221,103	352,453	352,453
Ending net assets	\$ 234,067	\$ 192,117	\$ 386,591	\$ 347,474

Condensed Statements of Cash Flows

	<u>Water</u>		<u>Sewer</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(amounts in thousands)			
Net cash provided by (used in):				
Operating activities	\$ (39,154)	\$ (1,327)	\$ (5,470)	\$ 12,324
Noncapital financing activities	282	281	352	351
Capital and related financing activities	39,842	(12,599)	(94,180)	(67,092)
Investing activities	3,038	12,528	20,022	24,855
Net increase (decrease)	4,008	(1,117)	(79,276)	(29,562)
Cash and cash equivalents:				
Beginning of year	(1,268)	(151)	88,956	118,518
End of year	\$ 2,740	\$ (1,268)	\$ 9,680	\$ 88,956

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(14) Natural Disaster

On August 29, 2005, the New Orleans region suffered significant damage to property and lives when Hurricane Katrina struck the Gulf Coast area. The Board sustained significant damage to Board-owned facilities, service vehicles, and inventory, which were flooded and/or wind damaged.

For the year ended December 31, 2005, losses totaling \$55,909,262 were provided as follows. The net book value of damaged property was \$49,238,527 and lost inventory amounted to \$6,670,735. Insurance proceeds of \$2,346,397 were received in 2007 and are included in miscellaneous accounts receivable as of December 31, 2006. No additional insurance proceeds are expected to be recovered.

As of December 31, 2006 and 2005, the Board has received \$71,969,709 and \$2,320,833, respectively, of cash reimbursements from the Federal Emergency Management Agency (FEMA). Included in accounts receivable as of December 31, 2006 and 2005 are \$40,789,643 and 38,334,167, respectively, of reimbursements due from FEMA. Additional FEMA grants totaling in excess of \$102 million are in various stages of the approval process and include amounts for system repairs, building repairs, vehicle and equipment repairs and replacements, temporary power, supplies and other costs.

(15) Subsequent Events

On March 21, 2007, the Board approved a series of five annual water rate increases beginning with the first increase on November 1, 2007 followed by four additional increases to be implemented on July 1 of each year, 2008 through 2011. The New Orleans City Council approved the annual water rate increases on October 4, 2007.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

Required Supplementary Information Under GASB Statement No. 25

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date December 31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Overfunded) Unfunded AAL	Funded Ratio	Covered Payroll (millions)	Unfunded AAL as a Percentage of payroll
2006	\$ 217,274,416	\$ 235,664,407	\$ 18,389,991	92.20%	\$ 26	70.92%
2005	209,829,340	225,544,886	15,715,546	93.03%	30	52.30%
2004	204,706,452	218,155,395	13,448,943	93.84%	30	44.58%
2003	196,697,432	205,362,089	8,664,657	95.78%	28	30.46%
2002	187,892,716	197,323,094	9,430,378	95.22%	29	32.65%
2001	180,737,126	167,062,451	(13,674,675)	108.19%	29	(47.39%)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contribution
2006	\$ 4,073,502	\$ 3,343,713	82.08%
2005	4,702,354	3,716,381	79.03%
2004	4,271,797	3,721,034	87.11%
2003	3,193,339	3,391,537	106.21%
2002	3,190,707	2,931,065	91.86%
2001	-	5,417,852	-

See accompanying notes to financial statements.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

SCHEDULE OF NET ASSETS BY DEPARTMENT

ENTERPRISE FUND

As of December 31, 2006 and 2005

ASSETS	Water System		Sewerage System		Drainage System		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Property, plant and equipment:								
Less accumulated depreciation	\$ 490,937,879	\$ 454,456,196	\$ 704,769,681	\$ 654,877,929	\$ 761,329,003	\$ 741,813,771	\$ 1,957,036,563	\$ 1,851,147,896
	224,183,761	212,729,242	156,754,092	146,244,772	186,852,830	174,875,053	567,790,683	533,849,067
	266,754,118	241,726,954	548,015,589	508,633,157	574,476,173	566,938,718	1,389,245,880	1,317,298,829
Restricted assets:								
Capital projects	8,851,627	8,707,752	2,038,581	4,729,768	62,549,665	68,163,184	73,439,873	81,600,704
Construction funds	5,092,717	8,094,018	58,897,441	155,534,509	15,832,280	18,986,417	79,822,438	182,614,944
Debt service reserve	3,928,380	3,928,380	18,325,688	18,325,688	-	-	22,254,068	22,254,068
Customer deposits	4,923,373	5,417,248					4,923,373	5,417,248
Health insurance reserve	1,539,524	1,491,300	1,539,524	1,491,300	1,539,524	1,491,300	4,618,572	4,473,900
Debt service	749,065	743	2,196,427	1,881,473	1,604,351	-	4,549,843	1,882,216
Other	94,000	94,000	79,000	79,000	39,000	39,000	212,000	212,000
	25,176,686	27,733,441	83,076,661	182,041,738	81,564,820	88,679,901	189,820,167	298,435,080
Current assets:								
Cash	2,590,476	(1,105,510)	9,430,622	5,270,114	3,022,622	331,192	15,043,720	4,495,796
Accounts receivable:								
Customers, net of allowance	5,734,792	5,443,697	7,978,961	6,901,449	-	-	13,713,753	12,345,146
Taxes	-	-	-	-	9,076,530	7,409,194	9,076,530	7,409,194
Interest	116,049	84,524	76,049	39,631	1,019,847	770,180	1,211,945	894,335
Grants	27,594,210	9,807,541	5,797,109	14,893,269	7,409,493	13,895,741	40,800,812	38,596,551
Miscellaneous	3,743,441	2,045,156	1,074,590	429,609	2,069,190	838,621	6,887,221	3,313,386
Due from City of New Orleans, current	96,000	96,000	70,000	70,000	34,000	34,000	200,000	200,000
Due from (to) other internal departments/other fund	(13,518,204)	(9,087,695)	7,902,269	7,284,098	5,906,713	2,094,375	290,778	290,778
Inventory of supplies	6,989,800	3,060,529	1,965,398	1,454,684	643,416	368,417	9,598,614	4,883,630
Prepaid expenses	219,227	287,213	170,510	223,387	97,434	127,650	487,171	638,250
	33,565,791	10,631,455	34,465,508	36,566,241	29,279,245	25,869,370	97,310,544	73,067,066
Total current assets	124,557	196,135	90,823	143,015	44,114	69,464	259,494	408,614
Due from City of New Orleans, less current portion								
Other assets:								
Bond issue costs	209,223	226,260	1,094,822	1,105,167	103,417	115,036	1,407,462	1,446,463
Deposits	22,950	22,950	17,965	17,965	10,400	10,400	51,315	51,315
Pension Asset	1,690,502	1,822,167	1,035,002	1,115,613	724,501	780,929	3,450,005	3,718,709
	1,922,675	2,071,377	2,147,789	2,238,745	838,318	906,365	4,908,782	5,216,487
	\$ 327,545,827	\$ 282,359,362	\$ 667,796,370	\$ 729,622,896	\$ 686,202,670	\$ 682,463,818	\$ 1,681,544,867	\$ 1,694,446,076

(Continued)

SEWERAGE AND WATER BOARD OF NEW ORLEANS
SCHEDULE OF NET ASSETS BY DEPARTMENT, CONTINUED

ENTERPRISE FUND

As of December 31, 2006 and 2005

	Water System		Sewerage System		Drainage System		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
NET ASSETS AND LIABILITIES								
Net assets:								
Invested in capital assets - net of related debt	\$ 227,821,745	\$ 205,121,312	\$ 390,681,714	\$ 327,013,253	\$ 564,851,319	\$ 560,005,135	\$ 1,183,354,778	\$ 1,092,139,700
Restricted for:								
Debt service	4,677,445	3,929,123	20,522,115	17,839,624	1,604,351	-	26,803,911	21,768,747
Capital Projects	(27,418,855)	(16,934,002)	(29,592,755)	(2,620,319)	60,625,834	56,065,787	3,614,224	41,752,104
Total net assets	205,080,335	192,116,433	381,611,074	347,473,196	627,081,504	616,070,922	1,213,772,913	1,155,660,551
Long-term liabilities:								
Claims payable	2,023,847	2,523,933	1,723,847	1,923,933	1,723,847	1,923,933	5,471,541	6,371,799
Bonds payable (net of current maturities)	41,100,821	42,964,660	206,074,644	191,359,128	23,835,000	24,905,000	271,010,465	259,228,788
Special Community Disaster loan payable	46,011,566	-	-	-	-	-	46,011,566	-
Debt Service Assistance Fund loan payable	2,754,940	-	36,134,782	-	1,604,351	-	40,494,073	-
Capital leases payable (net of current maturities)	41,778	-	41,778	-	20,889	-	104,445	-
	91,932,952	45,488,593	243,975,051	193,283,061	27,184,087	26,828,933	363,092,090	265,600,587
Current liabilities (payable from current assets):								
Accounts payable	10,747,609	25,362,351	20,715,754	29,679,228	10,337,418	17,019,756	41,800,781	72,061,335
Due to City of New Orleans	(212,674)	748,746	-	-	-	-	(212,674)	748,746
Retainers and estimates payable	920,063	47,928	1,086,098	4,467	900,099	2,487,347	2,906,260	2,539,742
Due to other fund	41,792	29,042	19,617	13,632	23,881	16,595	85,290	59,269
Accrued salaries	355,272	276,901	208,136	149,304	159,051	111,171	722,459	537,376
Accrued vacation and sick pay	4,845,479	4,918,347	2,890,152	2,987,797	1,700,954	1,968,251	9,436,585	9,874,395
Claims payable	5,548,497	5,451,361	5,072,162	5,141,375	16,716,854	16,577,612	27,337,513	27,170,348
Capital lease payable	1,062,491	322,469	1,062,491	322,469	531,245	161,234	2,656,227	806,172
Other liabilities	35,212	1,734	(3,214)	-	(476)	-	31,522	1,734
	23,343,741	37,158,879	31,051,196	38,298,272	30,369,026	38,341,966	84,763,963	113,799,117
Current liabilities (payable from restricted assets):								
Accrued interest	216,875	216,875	1,130,571	2,367,537	98,225	98,225	1,445,671	2,682,637
Bonds payable	1,820,000	1,735,000	9,042,403	145,795,285	1,070,000	1,015,000	11,942,403	148,545,285
Retainers and estimates payable	228,551	226,334	976,075	2,405,545	399,828	108,772	1,604,454	2,740,651
Customer deposits	4,923,373	5,417,248	-	-	-	-	4,923,373	5,417,248
	7,188,799	7,595,457	11,139,049	150,568,367	1,568,053	1,221,997	19,915,901	159,385,821
Total current liabilities	30,532,540	44,754,336	42,210,245	188,866,639	31,937,079	39,563,963	104,679,864	273,184,938
Total liabilities	122,465,492	90,242,929	286,185,296	382,149,700	59,121,166	66,392,896	467,771,954	538,785,525
Total fund equity and liabilities	\$ 327,545,827	\$ 282,359,362	\$ 667,796,370	\$ 729,622,896	\$ 686,202,670	\$ 682,463,818	\$ 1,681,544,867	\$ 1,694,446,076

See independent auditors' report.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS BY DEPARTMENT
ENTERPRISE FUND

For the years ended December 31, 2006 and 2005

	Water System		Sewerage System		Drainage System		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Operating revenues:								
Sales of water and delinquent fees	\$ 33,799,760	\$ 38,727,266	\$ -	\$ -	\$ -	\$ -	\$ 33,799,760	\$ 38,727,266
Sewerage service charges	295,121	87,630	62,657,636	57,329,963	-	-	62,657,636	57,329,963
Plumbing inspection and license fees	2,283,384	1,901,997	295,121	87,630	-	-	590,242	175,260
Other revenues	36,378,265	40,716,893	58,556	256,648	948,743	1,013,058	3,290,683	3,171,703
Total revenues			63,011,313	57,674,241	948,743	1,013,058	100,338,321	99,404,192
Operating Expenses:								
Power and pumping	4,890,021	3,903,087	1,880,042	2,353,793	4,806,577	5,561,224	11,576,640	11,818,104
Treatment	5,449,074	4,772,674	8,069,796	8,963,841	-	-	13,518,870	13,736,515
Transmission and distribution	7,560,770	10,642,815	4,764,561	5,874,951	1,520,462	1,914,765	13,845,793	18,432,531
Customer accounts	955,307	1,206,819	955,305	1,206,812	-	-	1,910,612	2,413,631
Administration and general	1,132,626	1,322,804	1,132,624	1,322,800	-	-	2,265,250	2,645,604
Payroll related	5,206,201	5,965,300	5,404,288	4,602,831	3,104,155	1,562,642	13,714,644	12,130,773
Maintenance of general plant	8,978,284	9,719,859	5,399,566	5,996,566	3,536,792	4,063,823	17,914,694	19,780,248
Depreciation	7,612,754	15,412,637	5,431,645	4,553,406	10,300,268	8,025,407	23,344,667	27,991,450
Amortization	12,714,661	13,573,808	11,518,562	12,442,668	12,313,150	13,171,194	36,546,373	39,187,670
Provision for doubtful accounts	17,038	17,038	331,789	11,619	-	199	208,045	360,445
Provision for claims	9,013,429	2,769,572	13,342,477	3,812,694	-	-	22,355,906	6,582,465
	185,283	504,923	397,189	(1,802,306)	2,076,185	8,587,573	2,658,657	7,289,990
Total operating expenses	63,715,448	69,811,336	59,475,495	49,659,645	37,669,208	42,898,445	159,860,151	162,369,426
Operating income (loss)	(27,337,183)	(29,094,443)	4,535,818	8,014,596	(36,720,465)	(41,885,387)	(59,521,830)	(62,965,234)
Non-operating revenues (expenses):								
Two-mill tax	-	-	-	-	3,699	1,407	3,699	1,407
Three-mill tax	-	-	-	-	9,682,028	12,990,040	9,682,028	12,990,040
Six-mill tax	-	-	-	-	9,803,052	13,152,643	9,803,052	13,152,643
Nine-mill tax	-	-	-	-	13,686,249	19,707,787	13,686,249	19,707,787
Other taxes	282,273	281,159	352,048	350,659	-	-	634,321	631,818
Operating and maintenance grants	5,756,194	1,657,875	25,044,125	6,211,781	4,212,824	1,468,872	35,013,143	9,338,528
Interest income	-	-	896,075	820,722	3,218,928	2,470,767	4,115,003	3,291,489
Hurricane gain (loss)	1,169,579	(11,147,181)	750,489	(29,952,746)	381,229	(14,809,335)	2,303,397	(55,909,262)
Interest expense	(100,974)	(1,197)	(100,974)	(1,197)	(50,487)	(598)	(252,435)	(2,992)
Total non-operating revenues (expenses)	7,107,172	(9,209,344)	26,941,763	(22,570,781)	40,935,522	34,981,583	74,988,457	3,201,458
Income before capital contributions	(20,230,011)	(38,303,787)	31,477,581	(14,556,185)	4,219,057	(6,903,804)	15,466,627	(59,763,776)
Capital contributions	33,193,913	9,317,352	2,660,297	9,576,673	6,791,525	16,457,536	42,645,735	33,351,561
Change in net assets	12,963,902	(28,986,435)	34,137,878	(4,979,512)	11,010,582	9,553,732	58,112,362	(24,412,215)
Net assets, beginning of year	192,116,433	221,102,868	347,473,196	352,452,708	618,070,922	606,517,190	1,155,660,551	1,180,072,766
Net assets, end of year	\$ 205,080,335	\$ 192,116,433	\$ 381,611,074	\$ 347,473,196	\$ 627,081,504	\$ 616,070,922	\$ 1,213,772,913	\$ 1,155,660,551

See independent auditors' report.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

SCHEDULE OF PROPERTY, PLANT, AND EQUIPMENT BY DEPARTMENT

DECEMBER 31, 2006 AND 2005

	2006			
	Water	Sewer	Drainage	Total
Real estate rights, non depreciable	\$ 2,898,138	\$ 930,439	\$ 4,810,948	\$ 8,639,525
Power and pumping stations - buildings	55,902,946	28,782,664	194,137,885	278,823,495
Power and pumping stations - machinery	111,306,128	28,330,218	82,868,422	222,504,768
Distribution systems	119,077,196	-	-	119,077,196
Sewerage collection	-	228,195,494	-	228,195,494
Canals and subsurface drainage	-	-	280,879,403	280,879,403
Treatment plants	-	113,375,473	-	113,375,473
Connections and meters	28,221,798	10,305,832	-	38,527,630
Power transmission	7,479,863	5,006,170	11,121,635	23,607,668
General plant	80,115,985	56,876,266	40,260,201	177,252,452
General buildings	2,525,548	1,093,325	3,967,674	7,586,547
 Total property, plant and equipment in service	 407,527,602	 472,895,881	 618,046,168	 1,498,469,651
 Construction in progress	 83,410,277	 231,873,800	 143,282,835	 458,566,912
 Total property, plant and equipment	 490,937,879	 704,769,681	 761,329,003	 1,957,036,563
 Accumulated depreciation	 224,183,761	 156,754,092	 186,852,830	 567,790,683
 Net property, plant and equipment	 \$ 266,754,118	 \$ 548,015,589	 \$ 574,476,173	 \$ 1,389,245,880

	2005			
	Water	Sewer	Drainage	Total
Real estate rights, non depreciable	\$ 2,898,138	\$ 928,537	\$ 4,810,948	\$ 8,637,623
Power and pumping stations - buildings	55,259,353	28,367,231	188,813,477	272,440,061
Power and pumping stations - machinery	111,204,597	28,330,336	82,774,424	222,309,357
Distribution systems	119,781,310	-	-	119,781,310
Sewerage collection	-	221,151,432	-	221,151,432
Canals and subsurface drainage	-	-	280,333,767	280,333,767
Treatment plants	-	109,084,206	-	109,084,206
Connections and meters	27,548,619	10,395,959	-	37,944,578
Power transmission	7,479,863	5,006,170	11,197,394	23,683,427
General plant	79,389,520	56,315,935	40,101,305	175,806,760
General buildings	2,525,548	1,093,325	3,967,674	7,586,547
 Total property, plant and equipment in service	 406,086,948	 460,673,131	 611,998,989	 1,478,759,068
 Construction in progress	 48,369,248	 194,204,798	 129,814,782	 372,388,828
 Total property, plant and equipment	 454,456,196	 654,877,929	 741,813,771	 1,851,147,896
 Accumulated depreciation	 212,729,242	 146,244,772	 174,875,053	 533,849,067
 Net property, plant and equipment	 \$ 241,726,954	 \$ 508,633,157	 \$ 566,938,718	 \$ 1,317,298,829

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SEWERAGE AND WATER BOARD OF NEW ORLEANS

SCHEDULE OF BONDS PAYABLE

DECEMBER 31, 2006

	Average Annual Interest Rates	Interest Payment Dates	Issue Date	Final Maturity Date	Outstanding as of 12/31/2005	New Debt in 2006	Payments in 2006	Outstanding as of 12/31/2006
Drainage System Bonds, 1998 (9-Mills)	4.84%	(6/1;12/1)	12/01/98	12/01/18	7,525,000	-	425,000	7,100,000
Drainage System Bonds, 2002 (9-Mills)	4.46%	(6/1;12/1)	10/01/02	12/01/22	18,395,000	-	590,000	17,805,000
					25,920,000	-	1,015,000	24,905,000
Sewer Revenue Bonds, 1997	5.36%	(6/1;12/1)	06/01/97	06/01/17	21,920,000	-	1,330,000	20,590,000
Sewer Revenue Bonds, 1998	4.82%	(6/1;12/1)	12/01/98	06/01/18	19,035,000	-	1,075,000	17,960,000
Sewer Revenue Bonds, 2000	5.48%	(6/1;12/1)	05/01/00	06/01/20	22,690,000	-	975,000	21,715,000
Sewer Revenue Bonds, 2000-B	5.43%	(6/1;12/1)	11/01/00	06/01/20	17,315,000	-	760,000	16,555,000
Sewer Revenue Bonds, 2001	5.02%	(6/1;12/1)	12/01/01	06/01/21	28,350,000	-	1,250,000	27,100,000
Sewer Revenue Bonds, 2002	4.36%	(6/1;12/1)	12/01/02	06/01/22	51,820,000	-	1,920,000	49,900,000
Sewer Revenue Bonds, 2003	3.94%	(6/1;12/1)	12/03/03	06/01/23	5,150,000	-	215,000	4,935,000
Sewer Revenue Bonds, 2004	4.26%	(6/1;12/1)	12/01/04	06/01/24	31,870,000	-	1,160,000	30,710,000
Sewer Revenue Bond Anticipation Notes, 2005	2.19%	(6/1;12/1)	12/01/04	08/01/05	137,000,000	-	137,000,000	-
Sewer Revenue Bond Anticipation Notes, 2006	5.15%	(6/1;12/1)	07/24/06	07/15/09	-	24,030,000	-	24,030,000
					335,150,000	24,030,000	145,685,000	213,495,000
Water Revenue Bonds, 1998	4.82%	(6/1;12/1)	12/01/98	12/01/18	12,185,000	-	690,000	11,495,000
Water Revenue Bonds, 2002	4.57%	(6/1;12/1)	10/01/02	12/01/22	32,060,000	-	1,045,000	31,015,000
					44,245,000	-	1,735,000	42,510,000
TOTAL					405,315,000	24,030,000	148,435,000	280,910,000

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SEWERAGE AND WATER BOARD OF NEW ORLEANS

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
DEBT SERVICE AND DEBT SERVICE RESERVE
REQUIRED BY BOND RESOLUTION

For the year ended December 31, 2006

	Debt Service Account				Debt Service Reserve Accounts		
	Water Revenue Bonds	Sewer Revenue Bonds	Drainage Revenue Bonds	Total	Water Revenue Bonds	Sewer Revenue Bonds	Total
Cash and investments at beginning of year	\$ 743	\$ 1,881,473	\$ -	\$ 1,882,216	\$ 3,928,380	\$ 18,325,688	22,254,068
Cash receipts:							
Bond proceeds and accrued interest	2,754,940	146,520,223	3,798,052	153,073,215	-	-	-
Transfers from operating cash and debt service reserve	1,936,321	14,090,820	-	16,027,141	-	-	-
Total cash and investments	4,692,004	162,492,516	3,798,052	170,982,572	3,928,380	18,325,688	22,254,068
Cash disbursements:							
Principal and interest payments, cost of issuance and transfers	3,942,939	160,296,089	2,193,701	166,432,729	-	-	-
Total cash disbursements	3,942,939	160,296,089	2,193,701	166,432,729	-	-	-
Cash and investments at end of year	\$ 749,065	\$ 2,196,427	\$ 1,604,351	\$ 4,549,843	\$ 3,928,380	\$ 18,325,688	\$ 22,254,068

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SEWERAGE AND WATER BOARD OF NEW ORLEANS
CHANGES IN SELF-INSURANCE LIABILITIES BY DEPARTMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Beginning of Year	Current Year Claims and Estimate Change	Payments	End of Year
<u>WATER</u>				
Short-term:				
Workers' compensation	\$ 305,063	\$ 690,369	\$ 723,724	\$ 271,708
Health insurance	1,185,942	5,230,018	5,097,358	1,318,602
General liability	3,960,356	(2,169)	-	3,958,187
Total short-term	<u>5,451,361</u>	<u>5,918,218</u>	<u>5,821,082</u>	<u>5,548,497</u>
Long-term:				
Workers' compensation	1,923,933	(200,086)	-	1,723,847
General liability	600,000	-	300,000	300,000
Total long-term	<u>2,523,933</u>	<u>(200,086)</u>	<u>300,000</u>	<u>2,023,847</u>
Total	<u>\$ 7,975,294</u>	<u>\$ 5,718,132</u>	<u>\$ 6,121,082</u>	<u>\$ 7,572,344</u>
<u>SEWERAGE</u>				
Short-term:				
Workers' compensation	\$ 305,063	\$ 690,372	\$ 723,727	\$ 271,708
Health insurance	726,087	3,162,270	3,107,960	780,397
General liability	4,110,225	(66,168)	24,000	4,020,057
Total short-term	<u>5,141,375</u>	<u>3,786,474</u>	<u>3,855,687</u>	<u>5,072,162</u>
Long-term:				
Workers' compensation	1,923,933	(200,086)	-	1,723,847
General liability	-	-	-	-
Total long-term	<u>1,923,933</u>	<u>(200,086)</u>	<u>-</u>	<u>1,723,847</u>
Total	<u>\$ 7,065,308</u>	<u>\$ 3,586,388</u>	<u>\$ 3,855,687</u>	<u>\$ 6,796,009</u>
<u>DRAINAGE</u>				
Short-term:				
Workers' compensation	\$ 305,061	\$ 690,368	\$ 723,722	\$ 271,707
Health insurance	508,261	2,221,023	2,137,259	592,025
General liability	15,764,290	1,585,904	1,497,072	15,853,122
Total short-term	<u>16,577,612</u>	<u>4,497,295</u>	<u>4,358,053</u>	<u>16,716,854</u>
Long-term:				
Workers' compensation	1,923,933	(200,086)	-	1,723,847
General liability	-	-	-	-
Total long-term	<u>1,923,933</u>	<u>(200,086)</u>	<u>-</u>	<u>1,723,847</u>
Total	<u>\$ 18,501,545</u>	<u>\$ 4,297,209</u>	<u>\$ 4,358,053</u>	<u>\$ 18,440,701</u>
<u>TOTAL</u>				
Short-term:				
Workers' compensation	\$ 915,187	\$ 2,071,109	\$ 2,171,173	\$ 815,123
Health insurance	2,420,289	10,613,311	10,342,577	2,691,023
General liability	23,834,872	1,517,567	1,521,072	23,831,367
Total short-term	<u>27,170,348</u>	<u>14,201,987</u>	<u>14,034,822</u>	<u>27,337,513</u>
Long-term:				
Workers' compensation	5,771,799	(600,258)	-	5,171,541
General liability	600,000	-	300,000	300,000
Total long-term	<u>6,371,799</u>	<u>(600,258)</u>	<u>300,000</u>	<u>5,471,541</u>
Total	<u>\$ 33,542,147</u>	<u>\$ 13,601,729</u>	<u>\$ 14,334,822</u>	<u>\$ 32,809,054</u>

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SEWERAGE AND WATER BOARD OF NEW ORLEANS

SINGLE AUDIT REPORTS

DECEMBER 31, 2006



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Members of the Board
Sewerage and Water Board of New Orleans:

We have audited the financial statements of the Sewerage and Water Board of New Orleans (the Board) as of and for the year ended December 31, 2006, and have issued our report thereon dated October 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Board's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Board's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Board's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board, the Board's management and federal awarding agencies and pass-through entities, such as the State of Louisiana and Legislative Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



New Orleans, Louisiana
October 31, 2007



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH OF THE
MAJOR PROGRAMS, ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS**

To the Members of the Board
Sewerage and Water Board of New Orleans:

Compliance

We have audited the compliance of the Sewerage and Water Board of New Orleans (the Board) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Board's compliance with those requirements.

In our opinion, the Board complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the Board is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in

order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A control deficiency in the Board's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to administer a federal program such that there is more than a remote likelihood that a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Board's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Board as of and for the year ended December 31, 2006, and have issued our report thereon dated October 31, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board, the Board's management and federal awarding agencies and pass-through entities, such as the State of Louisiana and Legislative Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



New Orleans, Louisiana
October 31, 2007



SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2006

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
United States Department of Homeland Security – Special Community Disaster Loans	97.030	\$ 46,011,566
United States Department of Homeland Security – Public Assistance Grants: Passed through the State of Louisiana Office of Homeland Security and Emergency Preparedness	97.036	<u>74,200,682</u>
		<u>\$ 120,212,248</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Notes to Schedule of Expenditures of Federal Awards

December 31, 2006

(1) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal awards of the Sewerage and Water Board of New Orleans (the Board). The Board's reporting entity is defined in note 1 to the financial statements for the year ended December 31, 2006. All federal awards received from federal agencies are included on the schedule.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in note 1 to the Board's financial statements for the year ended December 31, 2006.

(3) Relationship to Basic Financial Statements

Federal awards are included in statement of revenues, expenses and changes in net assets as follows:

Government operating grants	\$ 35,013,143
Capital contributions	<u>39,187,539</u>
	<u>\$ 74,200,682</u>

SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Schedule of Findings and Questioned Costs

Year ended December 31, 2006

(1) Summary of Auditors' Results

- (a) The type of report issued on the basic financial statements: unqualified opinion
- (b) Significant deficiencies in internal control were disclosed by the audit of the basic financial statements: yes; Material weaknesses: yes
- (c) Noncompliance which is material to the basic financial statements: no
- (d) Significant deficiencies in internal control over major programs: none reported;
Material weaknesses: no
- (e) The type of report issued on compliance for major programs: unqualified opinion
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: no
- (g) Major programs:
 - United States Department of Homeland Security, Federal Emergency Management Agency –
Public Assistance Grants - passed through the State of Louisiana (CFDA number 97.036)
 - United States Department of Homeland Security, Federal Emergency Management Agency –
Special Community Disaster Loan (CFDA number 97.030)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$3,606,367
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: yes

(2) Findings Relating to the Basic Financial Statements Reported in Accordance with Government Auditing Standards:

2006-1 – Internal Control over Financial Reporting

Condition: General ledger account reconciliations for some significant accounts or transaction classes were not performed by management in a timely manner.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Schedule of Findings and Questioned Costs (continued)

Year ended December 31, 2006

2006-1 – Internal Control over Financial Reporting (continued)

Criteria: The definition of internal controls over financial reporting is that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertions embodied in the annual financial statements, which for the Board is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP). Our responsibility under current audit standards requires us to communicate this issue to management and the Board of Commissioners.

Effect: As part of the audit process; we have historically assisted management in drafting the financial statements and related notes for the year-end audit procedures. During the course of our audit procedures we identified significant adjusting entries to general ledger accounts. Because our involvement is so important to the financial reporting process and due to the significance of the financial statement adjustments, this is an indication that the internal control over financial reporting of the Board meets the definition of a significant deficiency and reaches the level of a material weakness.

Cause: Management does not have adequate experienced staffing to perform reconciliations of the general ledger accounts in a timely manner.

Auditor's recommendation: General ledger accounts should be reconciled in a timely manner and reviewed by management. This review should be documented.

Management response: Management concurs with the finding and will address.

(3) Findings and Questioned Costs relating to Federal Awards: None